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Ideas on Liberty

APRIL 1984

What Killed Ma Bell?

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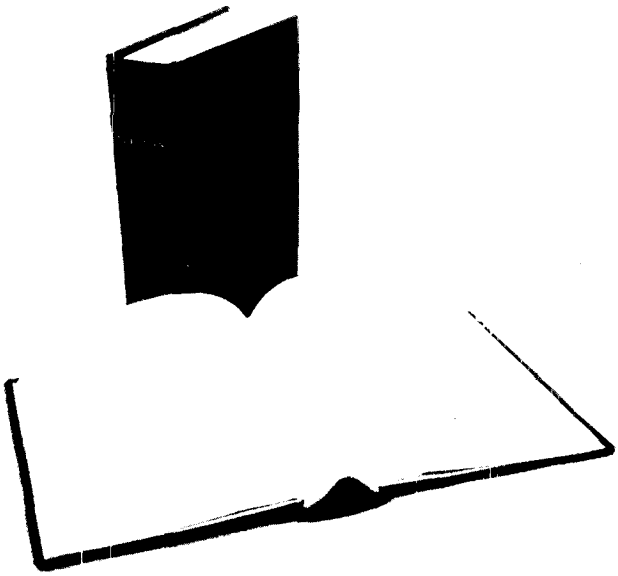

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Social Responsibility—A Page on Freedom, No. 5 — **Brian Summers** — **195**
Profits are earned through responsible business behavior.

What Killed Ma Bell? — **Melvin D. Barger** — **196**
A bureaucratic structure gives way to competition.

The Public Be Damned . . . . Again! — **Thomas E. Schaefer and Sid Streicher** — **205**
Both customers and suppliers will gain from competition.

Unionism Revisited — **Clarence B. Carson** — **209**
Correcting some possible misconceptions concerning the nature of labor union policies and practices.

Does Welfare Diminish Poverty? — **Howard Baetjer Jr.** — **219**
Never use the law to benefit some at the expense of others.

Women, Work and Wages — **Hans F. Sennholz** — **225**
Why women are better served, paywise and otherwise, in a free economy than under socialism.

To Save the World — **Edmund A. Opitz** — **239**
Concerning the importance of keeping the peace but otherwise letting things alone.

Book Reviews: — **249**
"America by the Throat: The Stranglehold of Federal Bureaucracy" by George Roche
"The Economics and Politics of Race: An International Perspective" by Thomas Sowell
"Idols for Destruction: Christian Faith and Its Confrontation with American Society" by Herbert Schlossberg
"Double Crossing" by Erika Holzer

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Social Responsibility

PROFIT-SEEKING businessmen are often accused of neglecting their social responsibilities. But in a free and open market, profit-seeking itself performs an important social function.

To see this, we need to understand free market pricing. In an unhampered market, the businessman adjusts his asking price so as to just sell all his products. If he tries to charge more than this market-clearing price, he loses so many customers to competitors that he can't sell all his wares. If he charges less than the market-clearing price, the demand for his product exceeds his supply. Only at the freely determined market-clearing price can the businessman sell as many items as he wants, and customers buy as many items as they want.

The intelligent businessman is well aware of this. He knows that he can't make profits by simply raising his prices because he would soon lose customers to his competitors. There is only one thing he can do—cut costs of production. Thus, the businessman tries to use his men and materials in the most efficient manner possible. And, because he must pay market wages, prices, and interest rates, he tries to minimize the number of people he employs, the amount of capital he uses, and the quantity of natural resources he consumes in producing his goods and services. In other words, he tries to practice conservation.

Thus, in a free and open market, with no government subsidies or other special favors, businessmen earn profits by using as little as possible to provide consumers with as much as possible. The greater the profit a businessman earns, the more scarce resources he leaves for other people to use. What is irresponsible about that?

—Brian Summers

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
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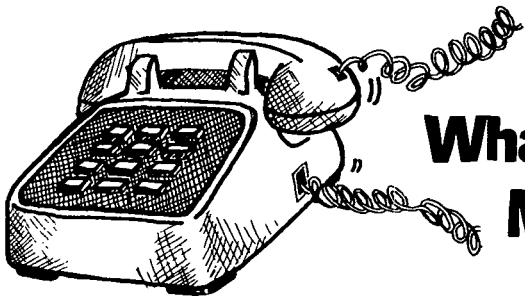
Melvin D. Barger



What Killed Ma Bell?

MA BELL, the world's biggest company and largest private telephone system, went to her Eternal Reward on January 1. Although she was reincarnated as a new, slimmed-down AT&T and seven regional holding companies, the successors to the old Bell System will be vastly changed from the giant telephone company which was such an intimate part of American life for most of this century. The most significant changes are the separation of AT&T from the Bell operating companies and the introduction of increased competition in the telephone field. Most of us who believe in free market economics think the change will be beneficial.

But before we say a last farewell to Ma Bell, we should at least hold a post mortem to find out the true causes of her demise. What killed Ma Bell? Why did she have to die? How did her terminal condition arise?

Mr. Barger is a corporate public relations representative and writer in Toledo, Ohio.

Some believe the Bell System was brought down by the U.S. Justice Department. The Justice Department had wanted to break up AT&T for a long time and had first attempted it with a 1949 civil suit. While that lawsuit had been settled by a 1956 Consent Decree which left AT&T virtually intact, a second Justice Department suit filed in 1974 was more successful and resulted in the dramatic divestiture settlement which was announced on January 8, 1982 and carried out two years later.

Another hero of the AT&T breakup is Federal Judge Harold Greene, who presided over the case and inserted some of his own convictions in the settlement—such as the order divesting the new AT&T of its lucrative Yellow Pages operation. Perhaps it was Judge Greene's unfriendliness that convinced AT&T management to accept divestiture rather than even harsher terms in a final ruling later on.

Finally, Ma Bell may have been

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partly done in by her critics. The Bell System had made a lot of enemies over the years. TV comedians like Joan Rivers roasted the telephone company before audiences of millions, while crusaders like Ralph Nader lashed out at the system in books and articles. None of this helped a company that craved and needed the public's support and good will.

It's true that all of these forces played a part in Ma Bell's demise. Yet the real cause of her demise may have been her long status as a "regulated natural monopoly." While this regulation may have appeared to be Ma Bell's great strength, it was also a weakness that proved fatal over time. And in the 1960s, a number of serious problems developed which AT&T was not equipped to solve under the old status.

The Key to the Problem

Perhaps the key to understanding Ma Bell's illness and demise is in a little-known but important book entitled *Bureaucracy*, by Ludwig von Mises.[1] First published in 1944 and largely reflecting Mises' experience with governmental bureaucracies in Europe, the book shows why bureaucracy is necessary for certain types of organizations and why it becomes harmful or ineffective for other types of organizations. Unlike those who merely denounce bureaucrats, Mises had a sympathetic understanding of bureaucracy as "a method of management which can be applied in different spheres of human activity." He noted that bureaucratic methods are a necessity for handling the apparatus of government, and that what people consider as an evil is not bureaucracy as such, "but the expansion of the sphere in which bureaucratic management is applied."[2]

Mises defined bureaucratic management as "management bound to comply with detailed rules and regulations fixed by the authority of a superior body." But business management, on the other hand, is management directed by the profit motive.[3] For a profit-seeking organization, "success" is not whether the organization closely follows certain rules and procedures, but whether it is profitable.

In the United States, however, many private companies—while still profit-seeking organizations—have been driven toward bureaucratization by government interference of one type or another. The most bureaucratic types of private organizations are those whose prices or activities are regulated and those who engage in a great deal of government business or depend on the government for the right to carry on their business. In a sense, many of these private businesses have to serve two masters: they must be profitable, and yet they must carry

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Bureaucracy

A private business is doomed if its operation brings losses only and no way can be found to remedy this situation. Its unprofitability is the proof of the fact that the consumers disallow it. There is, with private enterprise, no means of defying this verdict of the public and of keeping on. The manager of a plant involving a loss may explain and excuse the failure. But such apologies are of no avail; they cannot prevent the final abandonment of the unsuccessful project.

It is different with a public enterprise. Here the appearance of a deficit is not considered a proof of failure. The manager is not responsible for it. It is the aim of his boss, the government, to sell at such a low price that a loss becomes unavoidable.

LUDWIG VON MISES

out rules and regulations which might inhibit their ability to compete. They are, to quote Mises, expansions of "the sphere in which bureaucratic management is applied."

The Bell System was a victim of bureaucratized management, although it was a privately owned corporation and operated on a profit-seeking basis. But its profit-seeking activities were carefully monitored and restrained by authorities. Bell was subject to three of the four methods which, Mises noted, government authorities apply to interfere with the "height of profit" in private companies: 1) The profits that a special class of undertakings is free to make are limited; 2) The (government) authority is free to determine the prices or rates that the enterprise is entitled to charge for the commodities sold or the services rendered; and 3) The enterprise is not free to charge more for commodities sold and services rendered than its actual costs plus an additional amount determined by the authority either as a percentage of the costs or as a fixed fee. (Not applicable to Bell's case was the fourth method described by Mises, which allows the enterprise to earn as much as it can, with taxes absorbing all profit above a certain amount.)[4]

Most private companies encounter some political interference with their profit-seeking activities. But public utilities and defense contractors usually receive the most direct controls because, to a certain extent, they owe their existence to government favors. In the case of the Bell System, this government control went back more than 70 years, and it set the company up for serious trouble when changes came in the late 1960s.

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The Leadership of Theodore N. Vail

Bell's venture into bureaucratized management started in the 1907–1919 period under the leadership of Theodore N. Vail, whom Bell people revere as the architect of the modern system: "Alexander Graham Bell invented the telephone, but Theodore N. Vail invented the Bell System," Bell people have said.[5]

What Vail invented was a unique way of organizing the system under private ownership while getting government approval of the concept of a "natural" monopoly which should be operated "in the public interest." A number of competing telephone systems had blossomed in the early part of the century, and in some cases people served by one system could not be connected with people hooked to another in the same area. To Vail, this was wrong and inefficient, and he apparently did not believe that market forces would solve this problem. Moreover, the most serious threat to AT&T was not competition from other companies; it was the threat of being taken over by the federal government to be run as an arm of the Post Office. This was a very real concern, and in view of the fact that other major countries ended up with government-owned telephone systems which often performed badly, we owe Vail a great debt for keeping the U.S. telephone industry in private hands.

No Friend of the Market

But Vail was no friend of the free market or of competition. A distinguished business philosopher, he produced a number of essays and speeches which show that he clearly favored using the power of government to help him reach the goals he sought for the telephone industry. "One Policy, One System, Universal Service," was his emphasis, and he also said, in 1911, that a "public utility giving good service at fair rates should not be subject to competition at unfair rates."[6]

This seemed a reasonable idea in a time when the public was indignant about the profits of huge corporations and trusts. The concept of giving good service and accepting only "fair" rates in return seemed to show remarkable restraint. It also seemed reasonable to accept government regulation. Vail noted in a 1915 speech that the telephone was considered a necessity: "Society has never allowed that which is necessary to existence to be controlled by private interest." But he defended the monopolistic aspect of the Bell System because of its efficiency and devotion to service and the public interest, and he felt that regulation would work well provided men "of the highest standard" could be appointed to the regulatory bodies for life, with careful provisions made to safeguard their independence from corporate or political pressures.[7]

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Although Vail's beliefs appeared wise and sound, any present day student of business and government would know he was not talking about the real world of commerce and politics. For one thing, "fair rates" sounds marvelous in a speech, but it becomes elusive when regulatory officials actually try to make rate decisions. Few subjects today are more controversial than the rates charged by public utilities, and "rate hearings" by state commissions are sometimes the scenes of near-violent demonstrations with frequent heckling and name-calling.

No Government Body Can Be Free from Political Pressures

It is also unrealistic to believe, as Vail apparently did, that any government body can be free from corporate or political pressures. What he idealized, of course, was a statesmanlike group that would make profoundly wise decisions in the public interest and without the aim of benefiting or penalizing any part of society. As we know, however, all regulatory bodies are subject to pressures of various kinds, to say nothing of the convictions and prejudices held by individual members. And even lifetime appointments do not make people "independent" as Vail wanted them to be. For one thing, persons on lifetime appointments always know that their status, if necessary, can be changed by public vote, and they are also vulnerable to other public sanctions.

Still, it is to Vail's everlasting credit that his prescription for the Bell System did work well for many years. AT&T built what was considered the best telephone system in the world. Bell System officials usually won cooperation from federal and state officials and were left free to manage the telephone business in most important ways. They carried out their mission of service with great skill, and they also took care not to flaunt their monopoly position. The telephone operator was always pleasant and helpful, the service truck always arrived promptly, and Bell people would go to any lengths to get systems working again when there was storm damage.

Technical Advances

Moreover, the system moved ahead on the technical front, and we came to expect frequent improvements: rotary dialing that eliminated need for calling the operator, direct dialing of long distance, WATS service, and better telephones. With a system that covered more than 80 per cent of the nation's telephones, Bell could do extraordinary things to get long distance calls through when circuits were busy in certain areas. With service like that, why would anybody want a different kind of telephone system?

But trouble was never far away

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from the Bell System. One of the prickliest matters was Bell's ownership of Western Electric, the manufacturing subsidiary that produced most of the equipment for AT&T. A plus-$12 billion-a-year business in 1982, Western Electric had long been under attack. Indeed, it was to force the divestiture of Western Electric that prompted the U.S. Justice Department's 1949 civil suit against Bell. To AT&T, Western Electric was a necessary part of its operations and helped it to assure a high quality of service. To others, it was simply another manufacturer that was able to maintain a government-sponsored monopoly position because the 22 Bell operating companies were captive to it and had to buy most of their equipment from Western Electric. Some believed that Bell officials manipulated Western Electric's bookkeeping, and the like, to produce tax advantages for the company. Whatever the facts, there was no denying that Western Electric held a monopoly position that simply wouldn't have existed in a nonregulated environment. This was a festering issue with companies that had the expertise and technology to compete with Western Electric, but were denied entry to the market.

More serious trouble came for the Bell System as a result of its ratemaking and costs policies. In 1934 Congress passed the Communications Act which gave the newly formed Federal Communications Commission jurisdiction over AT&T (although state regulatory bodies also controlled the local Bell companies). According to a recent AT&T publication, the Communications Act "put into law the long-standing AT&T principle of providing universal telephone service at reasonable cost. One result was to subsidize lower residential rates by raising the cost of long distance service and business services—an action that set off a continuing controversy in the ensuing years."[8]

The Achilles' Heel

This rate-setting policy, seemingly an advantage in the 1930s, became the Bell System's Achilles' Heel in the 1960s. It also shows, more than almost anything, how far the Bell System had been able to stray from the usual constraints that face business organizations in the marketplace. No business with competitors can deliberately reduce its prices to one group of customers while making up the difference by overcharging other groups. This would be certain to bring at least two undesirable effects: 1) There would be excess demand for the underpriced commodities or services, bringing additional losses to the business, and 2) competitors would swoop in to capture the overpriced part of the business, making the original pricing strategy unworkable.

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But Ma Bell could adopt such a pricing policy because of the telephone company's monopoly position, which the government protected. Company officials knew that certain parts of its markets were tempting targets for potential competitors. But both Bell policy and public policy, backed by the police power of government, kept raiders out of these markets. More than almost anything, this policy showed how responsive the Bell System was to political moods and trends. The practice of holding down residential rates and overcharging long distance users was really a subtle form of the "soak the rich" policies that had come to dominate government thinking in the 1930s. It is also true that residential users, as a group, command more votes in state and federal elections than do long distance and business users. What the rate policy really meant is that long distance and business users were being taxed, with Ma Bell as the collector, to subsidize residential service. This gap became very large over time. An Ohio Bell official said early in 1983, "We're collecting, on the average, about $12 a month for basic local service from each residence customer. The gap between this $12 price and the $25 cost is currently recovered from other services priced considerably higher than their costs."[9]

This unusual rate-making policy might have continued virtually unnoticed for a number of years except for two developments. One, the FCC in 1968 issued its famous "Carterfone" decision which opened the way for business and residential use of interconnecting equipment. Then, aided by new technology, a company called MCI was given FCC authority to proceed with long distance services in a selected market. A 1978 federal appeals court decision later upheld MCI (and others) in serving long distance customers, previously a Bell fiefdom.

The Bell System's Dilemma

Critics of the Bell System approved of these moves and there was widespread agreement that it was about time AT&T faced some "real competition." Dismayed AT&T officials tried to fight back by accusing competitors of "cream skimming," i.e., taking the most lucrative markets and ignoring other telephone services. This is the same argument the government uses to protect its monopoly on first-class mail, and it actually has merit. It really is not fair to place one organization under tight control, with bureaucratic management, and then suddenly expose it to competition from other firms who are free to select their markets. Mises would have understood the Bell System's dilemma immediately: It was following pricing (or rate-making) rules that had been worked out over time by public au-

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thorities. Its assignment had been to promote widespread use of an essential necessity, the telephone. It carried out this mission and then, abruptly, FCC and federal court decisions brought a radical change in the rules.

It's hard to say what the long-term effect of these new rules will be, but it's clear that the Bell System was already being devastated by competition even before the 1982 divestiture announcement. A large number of all new business installations were non-Bell, and MCI and Sprint have captured part of the long distance market. Competitors' shares of both long distance and business markets could balloon to enormous size unless AT&T is able to counter this competition.

Lack of Flexibility

Meanwhile, the Justice Department in 1974 had again filed suit to force the divestiture that has now taken place. AT&T Chairman Charles L. Brown noted that Bell—which had been barred from entering the computer field by the 1956 Consent Decree—faced a "fence with a one-way hole in it"—a hole that admitted Bell's competitors but did not permit the company to compete back.[10] It's also true that the Carterfone and MCI decisions were of the same order. Bound by regulation and excessive rules, the company simply did not have the flexibility to strike back at these new competitors in the way any lean, marketing-oriented company is likely to do.

Even without divestiture, giant AT&T would eventually have come to grief if it had attempted to continue under close regulation while new competitors plucked away at its choicest markets. For one thing, where would it have found the revenues to continue subsidizing residential service? And how could it have elevated residential rates to reflect their true cost when these matters are controlled by state public utility commissions? The company was in a no-win situation, and Bell officials were glumly aware of it.

What killed Ma Bell? Well, a number of forces moved against her in the end: competitors, critics, the FCC, the Justice Department and federal courts. But she really passed on because her method of management—the bureaucratic management that is useful for public institutions—is ill-suited for competitive battles. From the sound of their advertising and the restructuring they're undergoing, AT&T and the new Bell offshoots are becoming more attuned to the demands of the marketplace. They'll need to become attuned. There are lots of hungry competitors out there who want a piece of the action, and there will be dramatic shootouts in pricing, services and technology.

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People who hail the new competition in the telecommunications field should not be too critical of Ma Bell in her era of monopoly. Her performance and service were marvelous compared with the performance and service of government-owned telephone systems elsewhere. If the choice is only between a government-owned, government-operated enterprise and a private, profit-seeking enterprise regulated and controlled by government, the Bell System record seems to say that the latter is better.

The mistake, which both the public and Bell accepted, was in believing that anybody should be granted a business monopoly enforceable by law. It's true that the early telephone industry appeared chaotic and inefficient when two telephone systems in the same area could not connect with each other. In short order, however, the needs of the customers, merger, or improved technology would have overcome this problem. And "natural" monopolies, to the extent that they exist, become outmoded. The railroads, for example, once had a monopoly on fast overland transport; this was quickly bypassed by the trucking industry in the 1930s. In the same way, the telephone companies' natural monopoly on service in a given area may soon be bypassed by a profusion of new technologies.

The 22 Bell operating companies, which will continue to be regulated under the umbrellas of the seven holding companies, may have trouble maintaining their position when new methods of bypassing them are marketed. AT&T itself, with its prestigious Bell Laboratories, Western Electric, and Long Lines may become a strong competitor in pushing these new technologies. But its protected, captive market is gone.

Ma Bell was a grand old lady in her day. We might agree with Art Buchwald, who called her "the only monopoly I ever loved." But we wouldn't really want her back.

—FOOTNOTES—

[1]Ludwig von Mises, *Bureaucracy* (Cedar Falls, Iowa: Center for Futures Education, 1983; N.Y. 1969; an unaltered, unabridged reprint of the 1944 Yale University Press edition).

[2]*Ibid.*, p. 44.

[3]*Ibid.*, p. 45.

[4]*Ibid.*, pp. 65–66.

[5]Alvin von Auw, *Heritage & Destiny* (New York: Praeger Publishers, 1983), p. 5.

[6]Theodore N. Vail, *Views on Public Questions*, 1917. A privately published collection of writings and speeches.

[7]John Brooks, *Telephone* (New York: Harper & Row, 1975, 1976), p. 144.

[8]*AT&T Communications*, a pamphlet published by the new AT&T to explain the divestiture and the services it will offer in the future, p. 6. From AT&T, New York.

[9]W. E. MacDonald, *The New Ohio Bell in the Age of Information*, Speech before Toledo (Ohio) Rotary Club, February 28, 1983.

[10]Alvin von Auw, p. 29.

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Thomas E. Schaefer
Sid Streicher

The Public Be Dammed . . . Again!

FEW of us non-saints live fully by what we preach. We excuse ourselves, of course, by admitting we're human. But there are limits to how far we can tolerate a gap between what we preach and what we do. When the gap gets too large, we must ask if we really believe what we preach.

In the realm of free enterprise, the gulf between American rhetoric and American practice has grown so large as to force the question: Do we really believe in competition?

•**Item:** A recent segment of the ABC-TV show, "Good Morning America" described cosmetic surgery performed in a California physician's office. The procedure is less expensive than having it done in a hospital. The reporter quoted a hospital administrator who complained that loss of revenue from surgery performed outside the hospital would cause increases in hospital charges to make up the lost income. The physician replied that increased competition should force the hospital to lower, rather than raise, its prices.

The saddest part of this tale is not the upside-down view of economics displayed by the hospital administrator. His complaint, as soon as a whiff of competition appeared, typifies an attitude. His ignorance is deplorable, but the mind-set that led him to complain is frightening.

Increasingly, in knee-jerk fashion, we look to government, not to the market, to solve our problems. Surely it is logical to turn certain economic functions over to government, or other institutions. However, these practices have been car-

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ried to such extremes that it is difficult to see how public interests are being served.

The Public Be Damned?

In the late 1880s, the New York Central railroad decided to discontinue the Chicago Limited, a fast, extra-fare passenger and mail train which ran between New York and Chicago. Reporters interviewed William Henry Vanderbilt, son and heir of the Commodore. They asked, "Don't you run it (the train) for the public benefit?" Vanderbilt's famous answer, "The public be damned," was only part of what he said. The rest of his reply was, "I am working for my stockholders. If the public want the train, why don't they pay for it?"

Vanderbilt's question touched both sides of the supply-demand equation. Had the public wanted that fast, extra-fare train, they would have paid for it by buying tickets to ride it. The railroad chose to discontinue the train because it was not profitable. When alternatives to trains became more plentiful in the forms of trucks, airplanes, and automobiles, the railroads became less and less profitable, and there were widespread changes in railroad operations.

Traditional View Under Attack

The ability to turn a profit traditionally has depended on a firm's ability to compete for the customer's dollar. Increasingly, however, firms, through government, seek to control competition while masquerading as friends of the consumer. Their efforts often turn out to be anything but friendly.

•**Item:** A spokesperson for the American dairy industry recently described it as the most efficient in the world. *Compared to what?* Price supports provided for dairy products by the federal government have removed competition from the dairyman's world. Producers can produce as much as they want, without regard to supply and demand. What the consumers don't buy at the supported price, the government will. Even the Edsel would have been a winner if Ford had had that kind of help in 1958!

•**Item:** A recent article in the *Wall Street Journal,* headlined "Truckers Ask U.S. to Forbid Rate-Cutting." A 1980 law made it much easier to get into the trucking business, and increased competition soon followed. About 6500 more regulated truck businesses operate today than in 1979.

The crux of the truckers' complaint is "shippers are taking full advantage of the overcapacity," and there is "a feverish scramble to force the best deal out of each carrier." This is what the free market is all about. But the truckers want the ICC

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to restrict rate-cutting. They claim lowered rates violate tariffs filed with the ICC. For whose benefit? The trucking companies will be forced to compete, and they don't like it. As deregulation produces lower prices for shippers, truckers will have to fight to stay in business. They don't look forward to the experience. The dairy industry has similar reservations about the prospects of free market competition.

•**Item:** Greyhound Bus Lines is ready to discontinue service to some towns in upstate New York because of extremely low passenger traffic. Greyhound cannot justify the service when so few seats are occupied. The outcry from the affected towns is piteous. Elderly people are quoted to show how they will be immobilized if the buses stop running into their towns. The State of New York has been asked to take steps to insure that Greyhound does not discontinue the service. Once again, here is anticompetitive bias at work.

If there is sufficient demand for bus service in upstate New York, somebody will provide it, even though Greyhound may not. If a profit can be made, an entrepreneur will seek to make it. If no profit can be made, how can we justify forcing an organization to provide the service?

Do we, then, really believe in competition, or do we merely mouth the words and back away when one of our own vested interests is involved? Is it un-American to suggest that Greyhound be permitted to stop carrying a few senior citizens on otherwise empty buses? Are we against Motherhood if we believe Elsie the Cow ought to sell her milk on the open market and pull in her horns when supply exceeds demand? Is it too much to ask that American businesses serve their clients in a competitive market?

Real Source of Wealth

The prime source of wealth for nations, as for individuals, lies beyond resources of oil or iron, corn or wheat. Wealth, as demonstrated throughout history, lies in internal worlds of will and idea. As the economist Joseph Schumpeter insisted, the root of abundance is competition and entrepreneurial activity. Entrepreneurs, dedicated to risk-taking and the building of the earth, may be suppressed. They are now being suppressed throughout our land. But a government which obstructs competition writes its own economic obituary.

The attitudes which nourish wealth may be temporarily neglected without causing permanent damage. The spirit of the free market is so deeply ingrained in our heritage that no minor force may destroy it. But people cannot live off their capital forever. The broaden-

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ing circles of anticompetitive attitudes which now rage through all levels of our society threaten the proverbial goose and her golden eggs. We can avoid a reckoning only by encouraging the will to physical and spiritual excellence that resides in the free soul.

The effort of the California doctor to compete with the local hospital is really a test case. If the hospital, which sees the government as its real client, appeals to that client and forces the doctor to retreat, our heritage will suffer a loss. If the doctor prevails, we will have a small victory in the effort to resurrect those elemental attitudes which make Americans "fighters, dreamers, creators of new worlds."

Let The Market Work

We believe the market system ought to be allowed to work. We believe consumers, whether individual or corporate, will benefit from market functions. And we believe American business will be stronger for it.

The alternative, facing us on every hand, is a legalized twentieth century version of "the public be damned." But this time, it may be too late for public action to prevent the damning.

IDEAS ON LIBERTY

A Miracle in Process

WHAT happened to the automobile and the ball point pen is illustrative of what has happened throughout American industry. The speed with which comparatively new products have disappeared from the market to make way for still newer ones has been fabulous if not miraculous. In fact, the word miracle might not be too strong. It is the miracle of a market where consumers are free to call the shots, where they are free to inspect every product offered to them and to act on their own judgment. It is a market where it is not considered immoral for consumers to act on their own judgment. In short, it is a market that is free.

In such a market, the consumer has every producer and would-be producer in the world striving to give him more of the things he wants and at the lowest prices possible. They are not striving toward that end because of any special love they might have for the consumer. They are striving to please the consumer because that is their only route to their own economic survival. It is the producer's search for newer and better ways of satisfying the consumer that keeps the flow of newer and better products pouring into the market, thereby assuring a wide variety of goods available for almost every purpose.

BERTEL M. SPARKS, "The Consumer's Badge of Authority"

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Clarence B. Carson

UNIONISM REVISITED

In 1980-1981, several articles of mine on unionism were published in *The Freeman*. They were not published serially, but rather as separate articles from time to time. This past year, these articles, plus an introductory and concluding chapter, were published by Western Goals as a paperback book—*Organized Against Whom? The Labor Union in America.*

Since the time when I wrote most of this book, a major change has occurred, or become more obvious, in the status of unionism. Labor unions have been declining: declining in the proportion of the number of their members to the work force, declining in the clout they can exercise over employers, and declining in popularity. Indeed, the proportion of union to non-union workers had been declining for a good many years. Unions were still entrenched in heavy industries such as steel, coal, and automobile, but they had not gained much among service personnel or in lighter industries, as more workers were employed in these. In the late 1960s and in the 1970s, unions made up for some of their losses by organizing government employees, but that has tailed off in recent years.

As much as I might delight in taking the credit, I doubt that the publication of either the articles or the book had any appreciable impact on the decline of unionism. Although the sun does come up after the rooster crows, we are reasonably sure the rooster's crowing has no causal effect on the sun. There are other more probable and direct causes for the

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Dr. Carson specializes in American intellectual history. He has written a number of books, including the one here discussed: *Organized Against Whom? The Labor Union in America.*

His most recent book, published by Western Goals, is the first in a 5-volume series, A Basic History of the United States. This first volume deals with *The Colonial Experience.*

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decline of unionism. The economic climate has not been favorable for unions.

Unions Grow in Prosperous Times

Historically, unions have usually had their periods of greatest growth in membership in periods when the money supply was rapidly increasing, with an aura of prosperity prevailing. On the other hand, membership has usually declined, sometimes drastically, in periods of monetary deflation, or, as these are often called, depressions. This phenomenon is quite understandable. When money is plentiful and prices are rising and employment is general, unions are much more easily organized and can more readily obtain such things as higher wages for their members. On the other hand, when money is tight and prices are falling and unemployment spreads, unions cannot obtain higher wages, many members are unemployed, and employers turn to the market for workers when they can; union membership usually declines.

The United States had what amounts to a monetary deflation in the late 1970s and early 1980s—a depression, if you will. It was not so much caused by any actual reduction in the money supply as it was by high discount rates by the Federal Reserve accompanied by government competition for the available money to make up for high Federal deficits. But the results were much the same as a large reduction in the money supply: tight money, high interest rates, widespread unemployment, increasing bankruptcies, greatly reduced business activity. The market adjustment to this situation is to reduce prices, including wages, in order to shift production to meet changing demand and to attract customers. There is resistance to reducing wages at all times, and resistance is especially strong by labor unions. In consequence, many unionized factories and other businesses have closed or drastically reduced their operations in the last few years. Unions are under heavy pressure to yield on work rules and restrictions as well as wages in order to reopen factories and increase work forces. In any case, all this has contributed to the current low and declining status of labor unions.

The Great Exception

There has been one major exception in our history to the decline of labor unions in a depression. It occurred during the Great Depression of the 1930s. In the midst of that depression, in 1936-1937, there was a major increase in union membership. Whole industries were successfully organized. This occurred mainly because there was a major change in the *political* climate. After a faltering effort in the first year of the New Deal, Congress had succeeded in

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passing a law which empowered unions to organize and use their tactics with government support and little let or hindrance from anyone. This was done by the passage of the National Labor Relations Act in 1935 and the subsequent setting up of a National Labor Relations Board, manned by pro-union appointees. Thereafter, for the remainder of the 1930s, union organization proceeded vigorously and with considerable success.

This exception serves also as an introduction to a broader and more general point. The growth and decline of labor unions is not necessarily dependent upon inflation-deflation cycles. It may also depend upon the political climate. That, in turn, may depend upon public attitudes toward unions. In any case, the growth or decline of unions depends in some considerable measure upon worker attitudes and beliefs about unions. Ultimately, I suspect, the large scale existence of labor unions depends upon both public and worker acceptance of them as a normal part of an economy. If they are not so accepted they will tend to be at most occasional and temporary organizations, usually secret in character, and will not muster political or legal support.

A Changing Climate

Which brings me back to my little book, *Organized Against Whom*? The book was written as an effort to make some contribution to the public understanding of unionism. The present decline of labor unions may have some further explanation than the fact that the recent depression has taken its toll. There has been some change also in the political climate. The most dramatic indication of this was in the Reagan Administration's handling of the air traffic controllers' strike. When the striking controllers who refused to return to work were replaced, there was surely a message in the action at least to government employees who are forbidden by law to strike. There are also indications, as reported both in the public media and elsewhere, that public sympathy and support for labor unions is at a low ebb.

Polls do not reveal, of course, how well or ill informed either proponents or opponents of labor unions are. Much of the opinion is almost certainly on the level of remarks most of us have probably heard over the years. For example, proponents of labor unions may say that they are in favor of the working man. Or, opponents may say that unions have performed a valuable service but that they have grown too powerful and gone too far. In any case, I take it that if opinion about unions is not going to shift much as the money supply does under the auspices of the Federal Reserve it needs a deeper and better informed basis than is indicated by such remarks.

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Against Whom?

Organized Against Whom? focuses on certain central aspects of unionism and explores them both historically and analytically. The most obvious aspect involved is the answer to the question posed in the title: Who are unions organized against? The answer to this question is crucial both to our understanding of and sympathy toward unions. Union rhetoric claims that they are organized primarily against capital, in Marxist terms, or—in the contemporary formulations—management or employers. Union rhetoric also claims that they are organized for and represent labor generally, or "the worker." On the contrary, my conclusion, supported by both reason and evidence, is that unions are most basically organized against other workers, that when a union is recognized by an employer he is in tacit alliance with it, and that the most direct results of unionism are unemployment and underutilization of workers. If this thesis is correct and acceptable, the person who declares that he is in favor of unions because he is on the side of the working man is confronted with yet another question: Which working man?

Organized Against Whom? also focuses upon the nature and character of the union over the years. It does so not only to clarify who unions are organized against but also where they fit, if they do, within the economy and other institutions of society. Labor unions have an impact on—are organized against—more than other workers. Over the years, they have contested with governments, management, other unions (in what are called jurisdictional disputes), and related industries to those in which they are organized. Beyond that, of course, they have made living more expensive for consumers generally. As for the contemporary opponent of unions who gives as his reason the fact that they have become too powerful, the historical record indicates that unions from the early 19th century down to the present have been basically organized to exclude other workers from competition with them for jobs. Whether they are powerful or not, that is the nature of their undertaking.

Unions Are an Enigma

It is no easy matter to get at the nature of labor unions. At the ontological level, it may be impossible to determine exactly what sort of beings they are. They are an enigma: they are neither simply voluntary associations of persons nor political organizations. They are neither fish nor fowl, so to speak, though they resemble in some of their features a variety of other organizations. Though they frequently rely on some measure of coercion, they are not

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governments. Though they operate within an economy, they are not economical in character. They resemble in important ways some sort of sect, a pseudo-religious sect because of their ideological underpinnings, and because of the government support they receive and the manner of their operations they are analogous to an established church.

It is, I say, quite difficult, if not impossible, to get at the full nature of labor unions. Yet it is, in my judgment, very important to try to do so, because it is in these terms that we must decide whether labor unions can be fitted into a peaceful society, a free economy, and a political system in which established religions are prohibited. Granted, I have cast my net more broadly than is common in dealing with labor unions, but I believe the subject warrants the treatment.

Some Differences

In an essay called "On Labor" in *The Freeman* (December, 1983), Percy Greaves has discussed *Organized Against Whom?*, and challenged some of my central points about the nature of labor unions. Since I believe that his challenges are based mainly on a misreading of what I was saying by lifting statements out of context or some differences about premises, I would like to examine both his challenges and the context of my points.

Mr. Greaves says that there "are some unfortunate contradictions in the book, as when we read, 'Let me confess at the outset that I do not know what labor unions are.' Then the author proceeds in chapter after chapter to tell what they are and what they do." But the statement quoted from *Organized Against Whom?* is a topic sentence, and it is immediately followed by qualifying and clarifying remarks. To wit: "I know many of the claims about them, know something of their tactics and methods, have a fairly clear idea of how they originated and developed, but beyond that I am stymied. I know that they are some sort of organization, but the kind, nature, and character of the organization is in doubt. More, I do not understand how and where labor unions fit into American society." The broader context is that the statement is made in the midst of an introductory chapter dealing with the enigmatic character of labor unions and the difficulties involved in determining the nature of some things. I fail to see the contradiction in saying that I do not know the nature of something fully and then proceeding to get as near an approximation of a grasp of its nature as I can. Learning begins quite often by becoming aware of the fact that we do not know something, and I was inviting the reader to join me in the quest.

Mr. Greaves misreads my mean-

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ing entirely when he takes me to task for saying that "Violence is not essential to unionism." I used the word "violence" in its common signification, as my dictionary defines it, "rough force in action," for example, "*a violent blow, explosion,*. . . etc." In short, I had in mind assaults on persons and property by unions. Now to the context. The preceding paragraph describes a violent confrontation between contending groups often cited as early union activity. The questioned sentence appears in this paragraph:

> It should be emphasized, however, that violence is not essential to unionism. It is sporadic and temporary, like the contentions between union and management. What is essential to unionism is the limitation of the supply of labor available and some means to induce employers not to avail themselves of the general supply. Some sort of coercion or intimidation is necessary, however. . . .

And I go on to explain why. Yet Mr. Greaves comments on this as if I had failed to recognize the role of coercion in unionism. My point was otherwise.

Economic or Political?

His following objections go very nearly to the heart of my thesis. He quotes me to the effect that labor unions "are not economic organizations," "Nor is the labor union primarily a political organization." On this matter of whether or not labor unions are economic organizations, I think he and I are using different definitions or premises. Mr. Greaves says, "If economics is the science of human actions to attain selected goals, then attaining union goals by boycotts, strikes and stopping others from working are certainly economic actions." Perhaps, and so is the Mafia.

But I prefer my own explanation of my statement, which is "If economy be understood as comprising those actions which are aimed at making available the greatest quantity of goods and services that are most wanted with the least expenditure of the means of production. . ., then labor unions do not fit into it. Their thrust is in the opposite direction, to raise the price of labor, to restrict the ways in which the means of production may be employed, and thus to increase the cost of production. . .; they produce nothing; they transport nothing; and they sell nothing. They are *dis*-economic organizations." None of this is meant to suggest that unions do not have an impact on economics or that they have not depended upon government support. Mr. Greaves appears to believe that it does. He says further, "This book presents many incidents illustrating how labor unions have used both economic and political means to attain their present position of power." I can only repeat that I was making judgments about

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labor unions as *organizations*, not denying or minimizing their economic and political connections.

Religious?

But that does not dispose of the question of the economic character of unionism, at least not for Mr. Greaves, for his above objections were only a prelude. He follows them by observing that perhaps his "greatest disagreement is with the author's assertion that 'Labor unions are religious, or religion-like organizations. Their immediate goals are ethical in character; their ultimate goals are religious. Their economic claims are ethical in character; [this is so whether they are pressing for higher pay or dealing with particular grievances of their members.]' " Mr. Greaves left out that last dependent clause without indicating that he had done so, though that may have been an oversight. In any case, contrary to Mr. Greaves' description, I did not merely "assert" the above, and that is important. The quoted statements come at the end of a fairly lengthy presentation of evidence and are intended as a summary of the import of this evidence. Moreover, there is an earlier chapter in the book which bears upon and provides some of the evidence for these conclusions.

Even so, it does not surprise me to learn that Mr. Greaves, or anyone else, might raise some questions about my conclusions. They are not the usual terms within which labor unions are discussed, and the conclusions are in some measure original, I suppose. If they were simply assertions they probably should be dismissed out of hand. But they are not that at all. They are the crux of an extended effort to do two things. One is to make an historical explanation of the framework within which labor unions became accepted and received political support for their undertaking. The other is to get as near as I can to discovering the nature of the labor union as an organization.

In partial rebuttal of my position, Mr. Greaves says, "The aims and actions of labor unions are certainly neither heavenly nor irrational. They are earthy and concrete. Labor unions seek more for their members." That labor unions often are earthy and concrete and seek more for their members I would not for one moment contest. Their desire for a greater return for their labor most, if not all, of us can understand. Nor do we have difficulty in understanding how people may organize to use extortion and intimidation to get more by excluding others from competition with them.

Ethical Claims

The difficulty comes in understanding how such activities may become socially and legally accept-

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able, and how government may lend its support to them. The difficulty further is in grasping what sort of organization would result from this recognition and where it would fit among social institutions. My reading of the situation is this. Labor unions offer ethical justifications for their strange behavior. They claim that their members have been wronged—an ethical question—and that they can only receive justice—an ethical matter—by banding together and obtaining it. That the alleged injustice occurred in the economic realm does not alter the ethical character of their complaint. People side with them and union members find their justification in the belief that they have been or are being wronged.

Rooted in Socialism

Both the ethical claims and the justification of unionism are rooted in an ideology, the ideology most commonly called socialism. In its deeper dimensions, socialism is both a substitute for religion and religion-like itself. It is religion-like in that it establishes as its goal a kind of heaven on earth; that is, it is utopian. This becomes an article of faith, that as men follow collective modes they are acting toward the realization of that goal. It becomes the main purpose of life. Labor unions are offshoots of the socialist movement, both historically and theoretically. They are a sect, if you will, within socialism. Unions claim special political immunities and privileges on the basis that they are right and justice requires their activities, and they are accepted by those who presumably believe their claims. There is much evidence, too, that they are more nearly a religion-like organization, than any other kind, but I will forgo the occasion to present it again, for it is somewhat lengthy.

Mr. Greaves did not deal with or concede the existence of the evidence and the reasons by which it is linked. Instead, he appears at first to misunderstand my point and then resorts to a definition to dispose of my position. He says that "there is nothing ethical or religious about the use of coercion, be it legal or illegal." If he means that ethics and religion are different categories of being than coercion, I agree, though I fail to see the relevance of the statement. If he means that coercion is in all circumstances unethical and contrary to religion, I disagree. Or if, as I had supposed, he thinks that I was somehow legitimizing unions by referring to their claims as ethical and their organization as religion-like, he is mistaken. An ethical claim may or may not be valid, and a religion may be false.

This last, however, Mr. Greaves does not concede. He says that religions "deal with matters that cannot be logically proved or disproved.

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Religions are concerned with the irrational aspects of life." His argument can be syllogistically summarized this way. Major premise: religions are irrational. Minor premise: unions are rational, or have rational goals. Ergo: unions are not religious or religion-like. It happens that I disagree with both his major and minor premise and do not, therefore, accept his conclusion, but the important thing is that none of that is germane to my position. I did not conclude that unions are religion-like because they are irrational—whether they are or not. Rather, I based that conclusion on their connection with socialism, on the point that it deals with such things as the purpose of life, the end toward which things move, and that unions are sectarian-like in their behavior, among other things. Nor did I attempt to prove that unionism is a false religion. Rather, I propose that its political immunities and privileges be withdrawn on the grounds that they are in violation of the First Amendment prohibition against an established religion. That is, for me at least, an interesting idea and one, I hope, worthy of consideration.

Lawlessness Defined

The other objections by Mr. Greaves can be dealt with summarily. He says that "lawlessness is referred to as the 'state of nature' " in my book. I have been unable to discover any statement resembling that in the book. I did refer to a state of nature, and described it as "a condition that would exist if there were no government." "Obviously," I also said, "in such circumstances every man becomes a law unto himself." I stand by that. Mr. Greaves questioned my view that "An ancient union complaint could certainly be disposed of if governments neither recognized, gave status to, taxed or otherwise noticed private organizations, except as they might disturb the peace." He thought that would in effect "repeal the First Amendment." I do not understand him. The First Amendment is a prohibition on the federal government, not a licensing of organizations. It provides for the free exercise of religion, freedom of speech, press, assembly, and the right of petition. No government recognition is required for men to associate in whatever way they will for peaceful activities.

He takes me to task for writing that "Congress is empowered to make laws regulating commerce." In his view, I should have made it clear that "The Constitution carefully limited that power to 'interstate commerce',". . . The context of my statement may help to explain why I did not do so. I was summarizing the grounds on which Congress passed a law empowering unions. As I remember it, I was paraphrasing the preamble to an act. In so doing, I

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was trying to reproduce with as much fidelity to the original as possible in a summary, neither approving or disapproving what they had said, nor offering advice on how they should have said it. If I had been describing the powers of the government myself, I would most certainly have noted the limitations, and anyone who doubts it may consult any number of my essays in which I have done so.

Now allow me to back off a bit. It is not for a writer to determine how well or how ill he has conveyed what he has to say. That is for the readers and reviewers. It takes two to tango, as the song says, and the two in this case are the writer and the reader. If Mr. Greaves, or anyone else, has misunderstood me, the fault may have been mine. It seemed to me in the above that in most instances what I had written had been misconstrued to some extent, either because of my ineptness or because of differences in understanding of the matters under consideration. In any case, I welcome the opportunity to try to clarify some questions that arose. I do so because I believe that on the central points, or most of them, Mr. Greaves and I are in agreement, and I would not want any potential readers to be turned away because of any possible misconstructions of the material in the book.

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Howard Baetjer Jr.

DOES WELFARE DIMINISH POVERTY?

DOES government-provided poor relief decrease the amount of poverty? That it does is an assumption at the heart of our nation's very large antipoverty programs. In fact those programs were instituted for the purpose of making themselves obsolete. Shortly before passing the Social Security Act in 1935, for example, Franklin Roosevelt declared to Congress, "The Federal Government must and shall quit this business of relief. . . . Continued dependence upon relief induces a spiritual and moral disintegration, fundamentally destructive to the national fiber." Thirty years later, as he signed the first antipoverty bill of the Great Society, Lyndon Johnson said, "We are not content to accept the endless growth of relief or welfare rolls. We want to offer the forgotten fifth of our population opportunity and not doles. . . . The days of the dole in our country are numbered."

The assumption that welfare helps the poor also explains why so many people today reject in practice the appealing old notion of classical Liberalism that government should play no favorites: that the force of law should not be used to benefit some people at the expense of others. While they recognize and perhaps regret that welfare *does* involve the force of law to benefit some (those considered poor) at the expense of others

Mr. Baetjer is a graduate student in political science at Boston College. This article also has been published at the college in *The Observer*.

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Howard Baetjer Jr. comes from Stevenson, Maryland. He received his undergraduate degree from Princeton University in 1974. From 1974 to 1978 he taught English and coached the football team at St. George's School in Newport, Rhode Island. In 1978 he went to Scotland to study English literature at the University of Edinburgh, gaining a master's degree in that subject in 1980.

Experience with government intervention in Britain turned Mr. Baetjer to the cause of liberty. So, after a year back at St. George's, he left teaching to write the first drafts of his essay, *The Golden Rule of Laissez-Faire,* an argument on moral grounds for limited government and a free society. Since the fall of 1982 he has been enrolled in a master's program in political science at Boston College, concentrating on political philosophy. He will receive his degree at the end of May.

Howard recently has joined in the work of FEE as a full time staff member. He plans to continue studying, writing, lecturing, and practicing liberty in the effort to draw others to the free market way of life.

(everyone else), they feel the principle is justifiably violated since welfare diminishes need. But is this assumption true? Does welfare, when all is said and done, really help solve the problem of poverty?

There is good reason to believe that it does not. What is worse, there is substantial evidence that welfare impedes progress against poverty. In our country, worst of all, welfare seems to have *increased* poverty. What follows is a brief summary of the thinking and evidence that lead to this surprising conclusion. We would do well to consider it seriously, for if it is true, our national antipoverty policy is doing great disservice precisely to those it is intended to help. In the words of Walter Williams, professor of economics at George Mason University, "*com*passionate policy requires *dis*passionate analysis" of policy effects. Analysis of welfare shows it to be a problem for poverty, not a solution.

Three Guidelines for Analysis

As one considers the problem of poverty, one should keep three basic truths in mind. The first of these is obvious, that is: poverty is finally

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overcome only when people are self-supporting. It is not enough that they be living for the moment at an acceptable standard if they remain dependent, just as one is not cured of a disease when he is taking medicine that eliminates his symptoms. Thus an essential objective of any anti-poverty program must be to maximize self-sufficiency.

The second basic truth becomes clear only after some thought, that is: prosperity depends on production. Unless physical goods are produced in the first place and then replaced as necessary, there can be no prosperity for anyone. If this stock of goods is not constantly increased, higher levels of well-being overall are impossible. Other things being equal, the more goods there are in the world—food, shelter, medicine, electric light, shoes, water heaters, and so on—the more there is to go around and the less poverty there will tend to be. (Of course things are not always equal, and different people end up with different amounts of these goods, but the principle stands nonetheless: if there is literally not enough to go around, some poverty is inevitable. At the other extreme, if goods should become overabundant, their price would approach zero and the poorest could afford all they could use.) Thus an important means of reducing poverty is increasing production.

The third truth has more to do with method, that is, to paraphrase Henry Hazlitt: good economics looks beyond obvious and short-term effects to see effects that are hidden and long-term. Applying this idea to welfare programs, we must look beyond the immediate advantages such programs provide to welfare recipients—the food stamps, medicaid, increased income and the like—and see other effects of the welfare process as a whole. For example, how do welfare programs affect employment, wage rates, productivity and prices (all of which are important to the poor).

With these truths in mind, before looking at any statistics, let us turn to some indirect effects of welfare that we would expect to occur.

Predictable Effects of Welfare

A first observation is that the incentives associated with welfare tend toward unwanted results (not that they necessarily bring about these results, only that they cause a tendency in that direction). The benefits go to people who, for a host of reasons, are relatively unproductive, while the funds to pay for them come, through taxation, from people who are relatively productive. Now we know that for human beings, benefits are positive incentives while taxes are negative incentives. Thus the welfare system tends to encourage unproductiveness and discourage productivity. A person who could

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bring home only a few dollars more per week working than taking advantage of the welfare system has an incentive not to work. Accordingly welfare tends to diminish both self-sufficiency, since it leads more people to accept unemployment, and production, since the productive potential of those people is not turned into goods. The effect may not be a large one, but it is something to consider.

From a purely economic standpoint, we must look beyond the visible welfare benefits and compare them with other positive effects *that might have occurred* in the absence of welfare, but cannot occur in its presence. For an important example, consider that the billions of dollars which go into the welfare system are no longer available for other things—such as investment. Many dollars spent on welfare would otherwise have been invested in new tools, new buildings and the like. This investment would have had concurrent positive effects of creating new employment opportunities and raising productivity. With welfare, however, these contributions to self-sufficiency and production never come about.

A final effect of government-provided welfare that we would expect to find, knowing how human beings behave, is inefficiency and waste. This is a phenomenon we might call "government failure": the inherent inability of government to do much of anything well. Since bureaucrats are paid out of tax revenues, which are collected regardless of whether or not the bureaucracy does a good job, there is little incentive for them to maintain high standards. Since the amount of taxpayers' money that passes through their hands depends on the size and perceived importance of their programs, the bureaucrats have an incentive to expand the numbers encompassed by those programs, and to find new reasons for increased funding. Since allocation of funds must for fairness' sake be by rule, a great deal of time and paperwork gets generated, and minimal scope is allowed for individual judgment about who deserves how much. Other problems of this kind could be identified.

A Look at the Record

Are these potential problems realized in fact? If so, how bad are they? According to the U.S. government's figures, the answers to these questions are, respectively, "yes" and "very bad indeed."

In regard to government failure, to begin with, there is a rather impressive disparity between the amount of money spent for the stated purpose of relieving poverty, and the amount the poor actually receive. In an article entitled "Where Do All the Welfare Billions Go?" (*Human Events,* February 6, 1982) M. Stan-

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ton Evans points out some remarkable figures. In 1965, combined federal, state and local outlays for "social welfare" totaled $77 billion. This was the beginning of the "Great Society" era. In 1978, the total was $394 billion. "This means that, over the span of a dozen years, we increased our national outlays for the alleged goal of helping poor people, on an annual basis, by $317 billion." But the number of poor people in the country, according to official estimates, has remained nearly constant in those years, at about 2.5 million. Here I quote Evans at length:

> One has to wonder how it is possible to spend these hundreds of billions to alleviate poverty and still have the same number of poor people that we had, say, in 1968. Waive that objection for a moment, however, and simply compare the number of poor people with the dollars spent to help them: You discover that, if we had taken that $317 billion annually in extra "social welfare" spending, and given it to the poor people, we could have given each of them an annual grant of $13,000—which is an income, for a family of four, of $52,000 a year.
>
> In other words, with this colossal sum of money, we could have made all the poor people in America rich.... It prompts the more suspicious among us to ask: What happened to the money?... [A] tremendous chunk of these domestic outlays goes to pay the salaries of people who work for and with the federal government—including well-paid civil servants and an array of contractors and "consultants," many of whom have gotten rich from housing programs, "poverty" studies, energy research grants, and the like.

In the words of Thomas Sowell, "the poor are a gold-mine" for the predominantly middle-income bureaucracy.

But we might expect ending poverty to be expensive. The crucial question is what has happened to poverty itself. That question is partly answered in the statistic above that the number of official poor has remained at about 2.5 million; clearly poverty has not been eliminated. But what of poverty as a percentage of population—are we at least decreasing the proportion of poor people in the country? Alas, no. In an article called "The two wars against poverty: economic growth and the Great Society" (*The Public Interest,* Fall 1982), Charles A. Murray demonstrates that around 1968, when Great Society antipoverty spending was booming and unemployment stood at 3.5%, progress against poverty slowed, and then stopped.

The Problem Persists

Since 1950, the number of (official) poor as a percentage of population was approximately 30%. From then until 1968, the figure dropped steadily, to about 13%. But then, right in the heart of the Great Society years, when more money than ever was being spent to decrease poverty even faster, the trend line

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flattened. After ten more years marked by ever-increasing outlays, the percentage of poor in our population had dropped only to 11%. Two years later, in 1980, it was back *up* to 13% again. The more we spent, the less progress we made.

Murray also discusses the figures on the proportion of people dependent on the government—that is, those who would be below the poverty line were it not for government benefits. This measure, which Murray calls "latent poverty," is perhaps the best indication of progress against poverty because it best reflects self-sufficiency, or lack thereof. Like official poverty, latent poverty as a percentage of population decreased steadily until the late sixties, from about 33% in 1950 to 19% in 1968. In 1968, however, the trend reversed; the proportion of Americans dependent on the government began to increase. With the exception of one dip after 1975, it has increased since, back to 23% in 1980.

In short, despite doubled and redoubled outlays to try to do away with poverty, poverty is increasing in our country. We made much better progress when we were spending less.

These sad results fit well what we might expect from the theoretical expectations mentioned above. Where there are incentives against self-sufficiency and productiveness, people will tend to become less self-sufficient and productive. The bigger the incentives, the stronger the tendencies. It should come as no surprise to see dependency increase when dependency is met with large cash and in-kind benefits. Perhaps these are not the reasons for the system's failure; perhaps entirely different forces are at the base of it. None spring to mind, however.

Quit this Business of Relief

In any case, welfare, the dole, poor relief—call it what you will—is a spectacular failure. More than that, if the reasoning presented here is sound, it is one of the vast tragic ironies of our age. It springs from the desire of good-hearted people to see poverty diminished, but in practice, apparently, it augments poverty. The fault is not in our intentions, but in our methods, our economic understanding, and ultimately, perhaps, in our principles. "To quit this business of relief," to end "the days of the dole," we might well find it best simply to *do it*. Let officials design policy—that is, do away with policies—according to the classical Liberal principle that "the force of law should never be used to benefit some people at the expense of others," not even if those benefiting are poor. Let care of the really needy be returned to individual responsibility—to genuine, private charity and efficient, private organizations.

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Hans F. Sennholz

Women, Work and Wages

To know the cultural condition of society is to know the position women hold in it. Their influence permeates the whole of life. They cultivate taste, refine manners, broaden views, and patronize the arts. Men mostly "go along" under their influence. Women support literature and music, champion painting and sculpture, and sustain educational, cultural, and social institutions. They are the mainstay of the churches, and the arbiters of taste, style and manners for both sexes. And yet, government statisticians inform us that American women earn only fifty-nine cents for every dollar earned by men. For a society that takes great pride in a long tradition of individual freedom and equality before the law, such inequality of income, if it is true, demands an immediate explanation.

It is probably correct that the average income of men exceeds that of women although any and all measurements of the difference must be rather suspect. They deal with historical data, not with purposeful individual action. Moreover, government statistics are political statistics

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designed to serve political ends. Nevertheless, the difference, whatever it may be, calls for an explanation. It is urgently needed to calm the waters that are agitated by old prejudices and new ideologies, churned by party politics and pressure group tactics.

The income differential permits two possible explanations: it either is just and moral, reflecting a difference in economic productivity of both sexes, or it is a grievous injustice that is rooted in man's behavior, custom, and institutions. If the latter should be found to be true, man must answer for the injustice inflicted on women, for man passed all laws, adopted all regulations, and established the economic and social order.

The Basic Choice of Orders

Economic production may be organized on the basis of private property in the means of production, commonly called "capitalism," or along the lines of state ownership or control of the means of production, which may be called "socialism" in its broadest sense, or more descriptively, the "command system." In capitalism, income flows directly from economic production. There is no separation of production from income creation, no "distribution" of the national product or dividend. Economic production is simultaneous income formation through a simple pricing process that is oblivious to extraneous factors, but keenly aware of the contributions made to production. Every man, woman and child receives the full measure of his or her contribution to the production process.

Socialism is an ideology of "just" distribution, which gives it great appeal and popularity the world over. Its raison d'être is "just" wages, and its objective is "justice" as defined by its authors. Some describe it as equal distribution per head of the population; some prefer distribution according to needs; yet others promote distribution according to merit and service rendered to the community. A few contemporary authors favor distribution according to "comparative worth." But no matter what version of "just wages" they should advocate, they all reject a close connection between production and distribution. They all rely on an economic czar or commander, or a committee of czars, wielding economic and political power. In their scheme of things income is assigned and allocated according to the commander's notion of merit and justice, which must ever be mindful of age, ability, sex, and many other factors. There is no market in which the consumers may value the producers' contribution to economic well-being, no value imputation and price calculation. But there are the commander's orders that assign work and allocate income.

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Work and Income by Command

Distribution according to socialist justice not only opens the doors of arbitrariness, but also establishes a social ranking order similar to that of the military. In the Soviet Union, which is the Marxian stem of all command systems, income justice is derived from the preservation and promotion of the Soviet order as judged by the men in power. Personal income and position are assigned according to the contributions made to the Soviet system, which makes all incomes "political rewards" for services rendered to party or state, and endows all positions with "political ranks" in the service of the Soviet order. It is managed by a new elite consisting of (1) members of the Communist Party and government officials, (2) officers of the armed forces, (3) writers, artists, scholars, and scientists who promote the system, (4) economic executives who manage the production process. The number of independent women in this new Soviet nobility is minute.

Nearly one-half of all Soviet laborers are women, even in occupations that demand great physical exertion and usually are thought to be male. There is little consideration for feminine physique and family obligations. The Soviet woman must labor from dawn to dusk, like a demon for work, not only in her primitive household but also in a vocation or profession. Like nowhere else in the world, the married woman and mother of children is forced to labor alongside men in mines and factories.

Women in Mines

In the words of a foreign visitor to the Soviet Union, "I cannot forget the sight of the women whom I met underground in the Kusbass coal mines, not far from the Mongolian border. It is true they did not labor directly as miners, but they operated the machines, ran the trains, and pushed the loaded wagons in the hoisting cage. It always touched me painfully when, in the dim light of my oil lamp, I saw women in unshapely garbs, with ugly headcovers which are a blend of hardhats and scarves, with stark black faces, doing heavy and dangerous work. They obviously felt out of place, had sullen faces, and answered the master's questions in a grumpy and irritated manner."[1]

In an economic command system, many men and most women are exploited ruthlessly by government, which may be the sole employer in the system. The particulars of exploitation may differ from country to country, may vary in fascism, socialism, or communism, but they all spring from a common root: the separation of income from production and the dispensation of "economic justice" by political force.

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The Private Property Order

In free and unhampered markets the consumers are the ultimate bosses of the production process. Their choices and preferences not only issue the production orders, but also create the jobs that fill the orders. They even pay the wages and determine the rates for all participants in the production process. In most cases the consumers are quite unconcerned about merchants and manufacturers. It does not matter whether they are white, black, brown or yellow, whether they are male or female, or worked five hours or fifty hours. Their only concern may be the quality and price of the product that promises to contribute to their personal well-being. The housewife rarely inquires into the race, color, creed, or sex of the manufacturer of the washing machine she may buy. But she undoubtedly is keenly interested in the quality and price of the product.

It is conceivable that consumers seeking personal services may discriminate among the providers of the services. The white piano student may want a white instructor, the black athlete a black coach, the yellow visitor a yellow companion. It is even conceivable that the female patient may prefer a female doctor or the male criminal a male defender. But it is equally feasible that individuals may prefer the opposite sex. The male patient may choose a female doctor and the female client a male attorney. The macho chief executive may surround himself with competent female executives, and the female school supervisor with capable male teachers. But even in all such cases of discrimination the question of quality and price usually enters into the buyer's consideration.

Consumers Discriminate

Consumer preferences always are discriminatory acts and as such affect the income of producers. Discrimination in production orders constitutes discrimination in income allocation. In short, some people earn more than others because consumers discriminate. If it is true that women only earn fifty-nine cents for every dollar earned by men, it is logical to infer that consumers, most of whom are women, discriminate against women. Women do not discriminate against women on the basis of sex, but rather on grounds of productivity in the market place. They tend to allocate orders and income according to the services rendered for their well-being. Despite all the temptations of discrimination on the basis of sex, they prefer economic well-being over bias and prejudice. If this is true and women do earn less than men, it must be concluded that many women earn less because they produce less in the market.

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The Issue of the 1980s

Feminist activists summarily reject this conclusion. They are convinced that men conspire to hold women down and keep them in low-paying jobs, that labor markets inflict harm on women and violate egalitarian and feminist principles. Jobs and income, they argue, are moral and legal entitlements, that flow from natural rights. If the demand and supply forces of the market order do not guarantee such rights, women must seek refuge with the command system that will assure the rights. Political action and government coercion must set *just* rates for every job.

The doctrine of "just wages" may belong to the armory of socialism or may have deep roots in Medieval economic thought. During the Middle Ages the center of economic thought was the doctrine of *justum pretium,* which provided the rationale for a rigid social order. In final analysis, it was a "station-of-life" doctrine that allocated income and wealth according to the class or estate in which a person happened to be born. The "just wage" allotted a princely income to a prince and a serf's pittance to a serf. It did not concern itself with personal productivity, that is, the contribution made to someone's well-being, but emphasized the rights and privileges of class or estate as defined by the king.

In contemporary setting, the Feminist drive for just wages finds expression in the movement for "comparable worth." Like the "just price" doctrine of ages past, the "comparable-worth" theory rejects market considerations and, instead, elaborates rights and privileges defined and granted by government. The latter differs from the former only as it builds on sex rather than class or estate. As the hottest item on the political agenda, it has been endorsed by every Presidential candidate and by hundreds of politicians who hope to use it to their advantage. The news media call it "the issue of the 1980s."

Like the "affirmative action" principle of the 1970s, the "comparable-worth" doctrine may become the law of the land through judicial decree rather than statutory authority of any kind. Federal judges all over the country are handing down orders against employers for discriminating against women. The state of Washington, for instance, was found to discriminate against office workers and ordered to come up with nearly a billion dollars to grant wage hikes and back-pay to certain state employees, mostly women.[2] Numerous other suits have been filed and Equal Employment Opportunity Commission charges made against several states, municipalities and other employers.

The "comparable-worth" doctrine rejects all market judgments of com-

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parable worth that are visible in the form of equal pay for many different kinds of labor. In the market sense, the house painter who earns the same income as the headmaster of a school, or a band musician, or a business manager, has "comparable worth"; he renders services that are valued equally to those performed by the headmaster, the musician, the manager, and many others. But this is not the meaning of the term used by Feminist activists and Federal judges. Their committees rank jobs according to a complicated point system, based on paper qualifications, training, education, human relations, problem-solving ability, accountability, and working conditions. The points then are run through an expensive computer which invariably finds employers guilty of sex discrimination.[3]

Education and Income

The comparable-worth doctrine is an elitist theory that aims to substitute committee points for the preferences and choices of consumers. It seeks to suppress economic reasoning and instead promotes the primitive notion that government determination and control of incomes are preferable to market forces of demand and supply. It betrays an elitist contempt for manual labor, especially hard physical labor, and reveals an astonishing bias for college degrees.

Surely, education may develop character and impart knowledge on how to make a living and how to live. But it may not have a direct relationship with personal income. In the private property order consumers reward producers for the services they render, not for the academic degrees they hold or the money they invested in education. When education makes a person more productive in the rendition of marketable services, it tends to yield higher personal income. After many years of training a heart surgeon is likely to earn a satisfactory income.

Whenever education does not impart productivity and usefulness to others, it may make a person learned and wise, but does not afford higher income. The brilliant student of Sanskrit or Gothic may not thereby enhance his earning power. In a free society he is free to pursue his studies to his heart's desire. But he can lay no claim to any income other than that which his customers ascribe and allow. The learned scholar who chooses his own life style, but covets the incomes of others, is not so learned after all. He is a vain and selfish individual who, to make matters worse, may join the enemies of the market order and call for redistribution of other people's income and wealth by political force. Lamenting the "unfair" distribution of incomes, many elitist academicians and intellectuals readily pass sentence on

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individual freedom and extol the virtues of one of the many varieties of the political command order.

As the affirmative-action doctrine of the 1970s did little to improve the economic lot of the minorities, so must the comparable-worth program of the 1980s be expected to be disappointing to the Feminists. The judicial decrees openly clash with the inexorable principles of human choice and action. Violating the laws of the market, the judges' orders are as futile as any order that would seek to revoke the laws of nature.

The comparable-worth program, wherever it is enacted, can be expected to depress the levels of living of most Americans as it raises costs and reduces output. But above all, it hurts the interests of many women whom it lifts right out of their jobs. After all, rising costs tend to depress demand. The program, wherever it is pursued with vigor and force, must be expected to cause unemployment especially among those women whom the judges meant to benefit. Moreover, it must be expected to distort the labor market by promoting the supply of "comparable-worth labor" and reducing the supply of physical labor that is primarily male. It will boost the number of trained typists, secretaries, and librarians, but reduce that of electricians, plumbers, and house painters. It will increase the number of volunteers for pleasant jobs in friendly offices and pleasing environments, and reduce the number of people who report for dirty or dangerous or physically exhausting labor. In time, this distortion can be expected to restore the pay differential between librarians and house painters, or even make it greater than ever before. The market differentials will reassert themselves, legally or underground, despite all the judges' orders.

Women and the Law

Throughout the ages the market order has been most supportive of women's rights. After all, it is the consumers' order that welcomes the greatest efforts by producers regardless of race, color, creed, or sex. The political command order, in contrast, reveals an uninterrupted record of discrimination. It applies the force of government to benefit one class of subjects at the expense of another class. It thrives on the political support from its beneficiaries, and brushes aside the protests of its victims. Throughout the economic Dark Ages women have been among its favorite victims.

During the last century when women first invaded occupations that had been held formerly by men only, government erected numerous barriers to the employment of women. In most cases labor unions spearheaded the drive. They did not openly castigate the competition of women and demand their purge, but they

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called for government intervention that would drive women off the labor markets. Unions advocated legislation to limit the working hours of women, fix minimum wages so that they would not be competitive with men, or even prohibit women from certain occupations. All these regulatory laws conflicted openly with the quest for legal and economic equality of women.

Studies of wages paid to women, conducted by labor unions or their political agents, invariably reveal that wages are largely insufficient to maintain a standard of "minimum health and decency." Consequently government must intervene, they conclude, to protect women and minors. The protection usually takes the form of forced increases in costs, which tend to eliminate the "protected" labor. All states now have legislation that limits women's hours of work in commerce and industry. Worst of all, they all have statutes designed to suppress the employment of women in their homes on a piece-work basis. Politicians and unionists decry it as the "Sweating System"; women call it the "Convenience System."

It is a method of industrial production in which productive work is done on the premises of the worker rather than in a shop or factory. It has been used most frequently in the garment industry, especially in inexpensive women's, children's, and infants' wear, but also other products such as embroidery, artificial flowers, shoe ornaments, lamp shades, toys, jewelry, brushes, prepared foods, and many other items. The Convenience System is an ideal system for women with family obligations that may leave some time and energy for income production. Unfortunately, governments and unions are waging an unrelenting war against it.

Most states have legislation designed to eliminate industrial homework. Some states prohibit, under penalty of fine and imprisonment, the manufacture by homework of numerous articles such as food products, children's clothing, and tobacco. Others require the licensing of homeworkers and the inspection of homework premises. Federal attacks on the homework system have taken the form of minimum wage legislation, which is designed to eliminate the homework performed by women and children. All along, labor unions are raising their barriers to female employment through unrelenting seniority rules. Varying in detail, they discriminate against women in hiring, layoffs, promotions, and so on.

During the 1970s rapid technological improvements have reopened the doors for profitable homework by women. The computer-word processor, which is coming to the market at ever lower prices, is creating new

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opportunity for women to perform clerical and accounting work, engage in research and provide information, from a home computer via modem to any other computer bank in the country. Exciting opportunities await a homemaker equipped with a terminal and knowledgeable in the ways of modern technology.

In the coming years government and labor unions may want to close this door again to female independence and opportunity. It will be interesting to observe the methods which the intervention will take: license or franchise, control of premise or equipment, interference with communication, imposition of minimum wages, or outright labor prohibition. Surely, politicians cannot be expected to leave working homemakers alone!

It is ironic and yet so revealing of contemporary thought and mentality that the same governments now haughtily legislate equality of the sexes. In June 1963 the Equal Pay Act was signed into law, providing for equal pay for women. The Civil Rights Act of 1964 outlawed employment discrimination on grounds of sex, race, color, or national origin. In 1965 two education acts, the Elementary and Secondary Education Act and the Higher Education Act sought to eliminate discrimination in schools. In 1972 the Education Amendments Act expressly forbade sex discrimination against students and employees in federally assisted education programs.[4] And yet, twenty years after the passage of the Equal Pay Act and despite all the laws and regulations that were to follow, American women are said to earn only fifty-nine cents for every dollar earned by men.

The legislative activity on behalf of women does not spring from the desire to remove old labor-law restraints on women. Having been imposed in the name of "protection," they probably will stay on the books. The activity must be seen as just another offshoot of the "command ideology" that seeks to use the law in an effort to promote an economic command system and reform human nature. It had, and continues to have, all the characteristics of a political ideology that endeavors to erase natural inequalities, to bring equality to white and black, old and young, and to make women the equal of men.

ERA

For more than a decade countless American women struggled to add the Equal Rights Amendment to the U.S. Constitution. Their efforts ended in defeat on June 30, 1982, when the deadline passed with three states short of the thirty-eight needed for ratification.

The wording of the amendment was innocuous enough: "Equality of rights under the law shall not be denied or abridged by the United States

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or by any state on account of sex." In the end the proposal failed because most Americans suspected that the movement wanted more than "equality of rights under law." They saw the amendment as a manifesto for Feminist radicalism that finds conflict in every issue and seeks to reform human nature by political force. To them, the struggle for ERA was linked with the movement for abortion, homosexual rights, nuclear freeze or disarmament, and other controversial issues.[5] Women's rights advocates were talking about the "gender gap" and "parting-of-the-ways" between men and women. But before they actually parted they showed marked preference for "liberal" politicians who promise to use government force in human relations, and revealed open hostility toward conservative candidates defending traditional values.

The political, social and economic ideology of ERA proponents has never been in doubt. According to Eleanor Smeal, the former president of the National Organization for Women (NOW), the amendment failed in the end because "the Republican Party led the attack." She released a list of 137 Republican state legislators who she said were primarily responsible. She also charged that "the Reagan administration is threatening the economic and social gains women achieved in the last decade."[6] At other times she blamed "the special corporate interests that profit from sex discrimination." This explanation differed little from those that would blame profit-seeking corporations for racial discrimination or class inequalities, or would indict corporations for low wages and obscene profits, for labor unemployment and consumer gouging, for air pollution and water poisoning, and for many human failings and vices.

Women's rights advocates applauded the Emergency Jobs Act (PL 98-8) that provided $1 billion for jobs and services of benefit to women. In 1983 they lobbied for the Economic Equity Act (HR 2090, S 888 of 97th Congress), which promised changes in tax and retirement matters, dependent care, insurance rates, regulatory reform, and child support. Complaining about "ingrained patterns of discrimination," they are ever eager to call on government for more laws and regulations, closer bureaucratic supervision and greater government expenditures on behalf of women. They readily file discrimination lawsuits against employers in the hope that "affirmative-action judges" will find new ways of ruling in their favor. The Supreme Court, in fact, paved the way by ruling that women may file suit under the 1964 Civil Rights Act without having to prove discrimination. A woman merely needs to show that her sex was used in the determination of her pay scale, in order to obtain a judg-

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ment against her employer.

It is difficult to judge the impact of the ERA movement. Although it was permeated by political and economic radicalism, it did reveal a powerful desire for sexual equality. It ushered in some changes in law and, more significantly, brought marked changes in tradition and custom. During the 1970s numerous states amended their constitutions to guarantee equal rights for both sexes. All kinds of institutional barriers came down, even a few labor laws. And above all, many mental barriers that were rooted in tradition and custom gradually disappeared.

Tradition and Custom

It is important to distinguish between tradition that is anchored in natural constitution and tradition created by institutional factors. Both together tend to obstruct women from moving into many occupations and employments in which they could have been more productive. Tradition and custom assigned certain vocations and professions to men, and relegated women to a sphere of "women's work" and "female professions." It is true, the doors were usually open to new trades and professions that appeared in response to new technology. But in occupations which men for a long time regarded as their own, tradition exercised a powerful restraining influence.

Custom, in general, is a practice that has become habitual. A businessman calls individuals who rely on him his "customers." Much of the common law in Anglo-Saxon countries is based on what had become customary and traditional. When customs command respect by virtue of being old they are said to have a glorious tradition. Their acceptance rests on the tacit conviction that their survival through the ages is proof of their worth and, therefore, justifies their preservation. The employment of men and women in certain occupations rested on the obvious differences in physical strength and capability, and represented a natural division of labor. The differences in physique assigned heavy labors to men, and life supporting, lighter housework to women. For thousands of years human survival undoubtedly depended on this natural division of labor.

What used to be an obvious necessity of nature may, in modern times, have become a tradition that no longer serves man's best interests. Modern technology may greatly reduce the disutility of labor, especially strenuous physical labor, and convert it to a pleasant push-button activity that can be performed by any responsible individual. Women now appear in labor markets that are traditionally male because modern technology may afford them labor productivity similar to that of men.

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In this sense, technological progress in free societies necessitates continuous revisions of tradition and custom. The women's rights movement is on the side of progress whenever it is requesting such revisions.

It is especially important to question tradition and custom that are resting on man-made laws, especially labor laws. They may offer spurious justifications for legal obstacles and create mental barriers. The latter tend to be highest with fellow-workers and their trade unions, and lowest with employers, the most maligned group of society. Employers are always under the pressure to use labor most effectively and advantageously and, therefore, are least susceptible to costly tradition. They may be subject to natural inertia and reluctance to learn, like anyone else. But it is unlikely that employers will for long oppose female labor if it is found to be higher in productivity and lower in cost.

There Is a Difference

To the dismay of most employers the use of female labor rarely affords any advantage. There are few women who devote their whole lives to income production, but many who dedicate their lives to their families. Rightly or wrongly, many employers are living in constant fear of losing their female workers to home and family. As one employer put it: "There are many jobs we may teach a woman; but it does not seem worth the effort and expense to teach her because the brighter she is, the more likely she is to go off and get married, just when she is beginning to be of some use." Or, she may leave because she is pregnant, or her husband is transferred. Or she may refuse to be transferred for reasons of family. In fact, she may not even want to shop around in the labor market in order to sell her labor at the highest price. Family considerations may be more important to her. Therefore, she must expect to earn less than an equally capable male worker because she will be producing less.

Most women spend but a few years of their lives in economic pursuits. The common age at marriage being 21 to 25, they may spend a few years before they are married, and again later when the children have left the nest. The amount of work a wife may supply to the market may depend not only on her wage rate, but also on the total income of the family. Empirical researchers have found that female market labor responds negatively to husbands' incomes; the more husbands earn, the less likely are wives to work. But there is a positive response of a woman's ability to earn income to her inclination to work; the more she can earn the more she is likely to work.[7]

In recent decades women

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throughout the capitalistic world have flocked from home to office or factory. In the United States, more than forty per cent of married women now are estimated to be earning extra incomes. This shift from home to market must be explained not only by the phenomenal reduction in physical exertion as a result of modern technology and application of capital, but also by the growing opportunity cost of home work. As American industry provided an ever increasing variety of goods at lower prices, it became more advantageous to buy them in a store than to make them at home. In other words, an hour's work in the office became more productive in providing goods for the home than an hour's work at home, which persuaded millions of married women to seek market employment. But even then they may want to limit their labor to times and places that allow for family chores. The office hours should not conflict with family hours, the place of work should not be too far from home, and above all, the production demands should not be overly exhausting, depriving her of the strength needed at home.

It is in the interest of all members of society that woman should develop her ego and join man as equal, freeborn companion and partner. She should develop her personality in accordance with her inclinations, desires and economic circumstances. But the basic differences in sexual character and physique cannot be outlawed any more than other inequalities of the human race. She cannot escape the burden of motherhood, of childbearing and childrearing that consume her energies and tend to remove her from the labor market. Pregnancy and the nursing of children take many years of her life and deprive her of the opportunity to be active professionally. While man may be pursuing ambitious goals, woman is a childbearer and nurse, carrying the burden of human reproduction. In order to compete with man and develop her abilities in economic life she may have to renounce her womanly functions and deny herself the greatest joy, the joy of motherhood. A few extraordinarily gifted women manage to achieve both, perform great deeds in addition to motherhood.

Affirmative-action judges are blind to the obvious. They actually find employers guilty for considering sexual limitations and situations. Oblivious to human nature, they issue court orders that seek to suppress it. They are hurting the very individuals they seek to benefit. By raising the cost of female labor they are reducing its demand which, in simple economic language, is tantamount to creating unemployment. The "marginal" employees, whose productivity was barely covering their employment costs before the

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judge's order, are rendered "submarginal" by the order; that is, they are made to inflict losses on their employers and thus, for purposes of employment, are made destructive rather than productive. In short, they are rendered unemployable. A Supreme Court decision that interprets the law in such an "affirmative" fashion may condemn many thousands of American women to long years of unemployment.

No society can rest for long on a judge's order and the power of the police to enforce it. A society, to prosper, must be built on the solid foundation of freedom and morality: these are the principal elements of its strength and the guarantors of its prosperity.

—FOOTNOTES—

[1]Klaus Mehnert, *Der Sovietmensch,* Deutsche Verlags-Anstalt, Stuttgart, 9th edition, 1962, p. 87.

[2]The federal judge ruled that the state violated federal laws by "direct, overt and institutionalized discrimination" that was "intentional" and is "continuing now." Unable to refute the comparable-worth doctrine, attorneys for Washington state argued that the judgment will have a "devastating" effect on the state's economy. The retail sales and use tax would have to be increased to 7.9 percent from 6.5 percent. Or, a 55 percent business and occupation surtax would have to be imposed. *The Wall Street Journal,* December 15, 1983, p. 18. This writer questions the attorneys' analysis. The judgment will merely create high rates of unemployment among the beneficiaries and greatly reduce the bureaucratic effectiveness of the state. To find employment many women may have to leave the state for other areas that offer market rates rather than court-ordered reparations.

[3]For a thorough discussion of the comparable-worth doctrine see: Ruth G. Blumrosen, "Wage Discrimination, Job Segregation and Title VII of the Civil Rights Act of 1964," *Journal of Law Reform,* Spring 1979 (V. 12, No. 3), pp. 399–502; Cotton Mather Lindsay, *Equal Pay For Comparable Work: An Economic Analysis of a New Antidiscrimination Doctrine,* LEC Occasional Paper, University of Miami Law and Economics Center, 1980; E. Robert Livernash, ed., *Comparable Worth: Issues and Alternatives,* Washington, D.C., Equal Employment Advisory Council, 1980; Suzanne E. Meeker, "Equal Pay, Comparable Work, and Job Evaluation," *Yale Law Journal,* January 1981, (V. 90, No. 3), pp. 657–680; Bruce A. Nelson, Edward M. Opton, Jr. and Thomas E. Wilson, "Wage Discrimination and the 'Comparable Worth' Theory in Perspective," *Journal of Law Reform,* Winter 1980 (V. 13, No. 2), pp. 231–301; Donald J. Treiman and Heidi I. Hartmann, eds., *Women, Work, and Wages: Equal Pay for Jobs of Equal Value,* Washington, D.C., National Academy Press, 1981.

[4]June Sochen, "Women and the Law," in *Encyclopaedia Britannica,* Book of the Year, 1980, pp. 485, 486.

[5]Probably the most effective opponent of ERA was Mrs. Phyllis Schlafly of Alton, Ill. In 1972, when the amendment was passed by Congress, almost unopposed, she launched a crusade against it. She founded a national organization, The Eagle Forum, and took her message coast to coast, charging that ERA would weaken the American family. After ERA's defeat, the Forum continued its "profamily" educational effort. Cf. *The Phyllis Schlafly Report,* Box 618, Alton, Illinois.

[6]*Congressional Quarterly, Weekly Report,* January 30, 1982, p. 160; July 3, 1982, p. 1586; April 23, 1983, p. 781 *et seq.*

[7]Cf. Jacob Mincer, "Labor Force Participation of Married Women," *Universities—National Bureau Committee for Economic Research,* Princeton, N.J., 1960, pp. 63–97. John D. Durand, *The Labor Force in the United States, 1890–1960,* New York, Social Science Research Council, 1968, pp. 216–217.

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Edmund A. Opitz

TO SAVE THE WORLD

Status quo is a Latin phrase meaning, in a modern translation, "the mess we are in." A great number of our contemporaries must understand it so, because never have so many persons and organizations come forward with such a variety of schemes for reforming other people and saving the world. This is the age of the Man with the Plan. The reformer, with his blueprints for social uplift, is in his heyday. I suppose that I too would be classified by some as a reformer, for I travel around the country making speeches and taking part in seminars. And the gist of what I have to say is that, indeed, things *are* in bad shape, but that they might be improved if we approached economic and political issues with more sense and in a different spirit.

The Reverend Mr. Opitz is a member of the staff of the Foundation for Economic Education. This article is from a speech delivered at the 40th annual conference of the American Association of Physicians and Surgeons, Columbus, Ohio, September 22, 1983.

If the distinguishing mark of a reformer is his yen to save the world, then I am not a reformer. But I live close enough to the tribe so that many of them send me their literature.

Across my desk come the outpourings of many earnest souls, offering salvation to the world if only the world will embrace their particular panacea. The panaceas peddled by these folk come in all sizes and styles, ranging from world government to a low cholesterol diet. In between are the socialists, the land reformers, the money reformers, the prohibitionists, the vegetarians, and those who believe that the world is in the strangling clutch of a far-flung conspiracy of sinister men who operate anonymously behind the scenes. As I read this material I am thankful that the world has so far refused to let itself be saved on the terms each and every one of these reformers lay down. These people differ wildly

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among themselves as to the details and precise nature of the remedy, but they are in basic agreement as to the general pattern reform should take. Reform—as they understand it—consists of A and B putting their heads together and deciding what C should be forced to do for D. William Graham Sumner of Yale, said something like this about a century ago.

Sumner was describing and deploring a tendency he perceived in the governmental policies of his day to expand the network of governmental interventions and regulations over society in the interests—allegedly—of upgrading the general welfare. This could not be done, he argued, except to the detriment of the productive part of the nation whose interests were to be sacrificed for the assumed benefit of selected individuals and groups. The A and B who put their heads together symbolized government, the public power. D symbolized those who got government handouts and subsidies of various kinds. C symbolized the great body of the nation, the men and women engaged in productive work, whose taxes supported not only the government but the vast and growing number of people, rich and poor alike, who fattened at the public trough. Sumner called C "the forgotten man" because he was the victim sacrificed whenever the public power was misused to confer private advantage. It is intriguing to note that when the New Deal resurrected Sumner's phrase the meaning was inverted. D, the new class with access to public funds, was now "the forgotten man."

"The New Freedom"

The thing which Sumner saw taking root a hundred years ago has come to full flowering in the totalitarian states of this century. But the seeds of today's Democratic Despotism were planted as far back as the 18th century when certain Continental philosophers decided that man had now come of age and could take charge of his own affairs. When you translate this idea from the French it reads: We enlightened few to whom the new truth has been revealed, will take charge of all the rest of you. The kings have been deposed and we represent The People. Combine majoritarian political processes with the powers conferred by science to control both nature and man, they said, and we will hatch a perfected humanity and manufacture a kingdom of heaven on earth. The age-old utopian dream will be a reality; it will be called "The New Freedom"!

Bring this ideology down to the middle of the 19th century and we come to the man from whom so many 20th-century problems stem—Karl Marx. The determining factor for mankind, Marx wrote, is "the mode of production in material life." A man's very consciousness is deter-

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mined by his social existence. "Men's ideas," he added, "are the most direct emanation of their material state." The logic of this is fantastic, for according to Marx's own statement, he himself is a mere mouthpiece for the material productive forces of 1859; Marx's mouth may frame the words, but his mind does not generate the ideas. The ideas come from "the mode of production in material life."

Salvation by Politics

Marx does not stop here; he goes on to fashion an idol. Declaring himself an atheist, he excoriates those who do not "recognize as the highest divinity the human self-consciousness itself." This new mortal god has only one obligation to the world: Save it! Aristotle's god, the Prime Mover, derived esthetic enjoyment from contemplating the world He had made; and many philosophers, and ordinary folk as well, have enjoyed the starry heavens and the glories of nature. But if Marx were to have his way, these kinds of pleasures would be prohibited. "The philosophers have only *interpreted* the world in various ways," he wrote: "the point, however, is to *change* it." (1845) A contemporary of ours, the late Bertram Wolfe, writing critically of Marxism, gives us this interpretation: "History was to be given a new meaning, a new goal, and a new end in Time.... At last man would become as God, master of his own destiny, maker of his own future, conscious architect of his own world." Salvation by politics!

Utopians, dreaming of an earthly paradise, have drawn up their blueprints of a heaven on earth, but in practice, every attempt to realize a perfect society has resulted in an intolerable society. Newfangled heavens on earth—as exemplified by the totalitarian nations—resemble nothing so much as visions of the old-fashioned hell. Nations began to walk the road to serfdom and the new slavery was inevitable. Meanwhile, another set of ideas was germinating.

The Rule of Law

Human beings have long aspired to be free. But it was only two centuries ago that this aspiration took concrete form in the philosophy of political liberty under the Rule of Law, with its economic corollary, the free market. America announced its ideal of political liberty to the world in The Declaration of Independence. The year was 1776. The Declaration states that men and women are given certain rights and immunities by their Creator, among them the right of every person to live his life peacefully, plus the right to freely exercise the energy that being alive confers—our rights to life and liberty. When a person is free to exercise his energies—which is to say, when he

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is free to work—he produces goods and services, and these rightfully belong to him. A person's right to property follows logically from his rights to life and liberty, and private property is the cornerstone of a society of free people.

The economic complement to the political structure envisioned in the Declaration is Adam Smith's monumental work, *The Wealth of Nations*. Smith demonstrated once and for all that the business, industry and trade of a nation does not need to be planned and managed by the political authority. Jefferson paraphrased Smith's idea when he wrote: "If the government should tell us when to sow and when to reap we should all lack bread." The uniquely American political philosophy of the Declaration said, in effect, that government should not run people's lives; government's proper role is similar to that of an umpire. The umpire on a baseball diamond does not operate the game, manipulating the players as if they were pieces on a chess board. The umpire's job is to be an impartial arbiter of the rules upon which baseball functions, interpreting and enforcing them as needed.

And so it is with the government of a free society. The people manage their own affairs according to the set of rules for living together in society, and the full time job of government is to ensure that the rules are obeyed. This is called the Rule of Law, referred to by Smith as the "liberal plan of liberty, equality, and justice." Smith showed that a society with equal justice under the law provides optimum liberty for the citizens, and that these same citizens in their capacity as consumers direct and regulate economic production by purchasing this and not purchasing that. Entrepreneurs analyze this data and produce whatever goods they think the customers will buy. This is capitalism, economic freedom in the marketplace, and it is the other side of the coin of political liberty. Neither can survive without the other.

Regulated by Consumers

Adam Smith did not advance the idea of an unregulated economy; no one believes in an unregulated economy. Capitalism is an economy regulated by the customers; it is consumer sovereignty exercised within the guidelines laid down by the moral law. A free society presupposes that each person is responsible for the way he lives his life; it presupposes that most people most of the time will not murder or assault or steal; most of the time they will tell the truth, fulfill their contracts, and treat their fellows decently. No kind of a society is possible among creatures who habitually violate these moral laws, and a free society presupposes high grade human material. If you have good people—defining "goodness" to

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include a modicum of intelligence—a good society follows. If men and women pursue the excellence appropriate to our species, choosing such exemplars as Jefferson's "aristocracy of virtue and talent," they will have a good society to match.

The original proponents of political liberty and a free economy called themselves Whigs in the 18th century—men like Jefferson and Madison in this country, Edmund Burke and Adam Smith in England. Their followers began to call themselves Liberals when England's Whig Party changed its name to The Liberal Party in 1832. But the meaning of the word "liberal" began to change even before the turn of the century, and it now means centralized government and a good deal of economic planning—just the opposite of the thrust of early Whiggism and Classical Liberalism. We who believe in the free society cannot now call ourselves Liberals, although early liberalism is in our heritage, so I have taken to calling myself a Whig, after F. A. Hayek who once said, "Call me an old-fashioned Whig, with emphasis on the old-fashioned."

Freedom of the Press

Whiggery fought some important battles in its time and gained some well-earned victories for several specific freedoms we tend to take for granted. For example, it brought the press out from under the political umbrella, freeing it from interference by a government censor empowered to tell editors and writers what to print and what to spike. There's a lot of hogwash written about "freedom of the press" these days, but that's another story!

A corollary of the free press is freedom of speech. This means that people are free to speak their minds and criticize the authorities without risking jail; free speech is an essential element of any society where people elect public officials. The departure of the kings introduced the electoral process as a means of choosing personnel for public office. And when citizens must select public officials by balloting, it is necessary that the issues be ventilated by written and oral debate—which must be free.

The third major freedom worked out by the Whigs was religious liberty. A free society has no official, established church supported out of the tax fund. Churches are supported by voluntary contributions, and there are no laws to punish heresy. The nearest thing to an established church in America is the public school system; but despite that, and despite the enormous quantities of tax money now being siphoned into colleges and universities, we still give a lot of lip service to the idea of academic freedom.

Academic freedom is a good idea, although the ways we now translate

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that idea into action are open to serious question. Freedom of the press is also a good idea, even though some journalists understand it to mean unlimited license to distort reporting into conformity with their ideological biases. "Separation of church and state" has become my least favorite American shibboleth, but I am nevertheless a devout believer in religious liberty. However critical I am of much that now goes on in these sectors of our life I know that conditions are much worse when the government operates the schools, the churches and the press—which is the theory and the practice of collectivist nations.

Let People Alone

In Whig theory, government should let people alone; government should not dragoon people into carrying out some vast national purpose; it should not override their personal plans in favor of some grandiose national plan. So long as John Doe is minding his own business, pursuing whatever peaceful goals he has in mind for himself, government should let him alone. But whenever John Doe's life, liberty or property is violated by any person, government should be alert to detect the crime and punish the perpetrator. The use of lawful force against criminals to protect the peaceful and productive members of society is the earmark of good law. "The end of government is justice," wrote Madison, "and justice is the end of civil society." Establish rules of the game designed to secure fair play for everyone, while providing maximum liberty for each man and woman to pursue personal goals. Get government out of its activist role. Limit the law to enforcing the rules against those who violate them—and the free society is the result.

Letting things alone is not the same as doing nothing; letting things alone is an acquired skill. The journal with which I am associated is called *The Freeman.* Between 1920 and 1924, the editor of *The Freeman* was a unique personality named Albert Jay Nock. Associated with Nock was a group of young writers such as Suzanne LaFollette, Van Wyck Brooks, and Lewis Mumford. Someone—reflecting on those four years—remarked to Nock, "Albert, you've done wonderful things for these young people."

"Nonsense," said Nock, "all I've done was to let them alone."

"True," replied his friend, "but it would have been different if someone else had been letting them alone."

Wise and Salutary Neglect

Rightfully letting things alone, in statecraft, is Edmund Burke's policy of "a wise and salutary neglect." But let me turn to medicine for a good analogy of the nature of government

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action proper to the free society. Certain medical theorists of about a century ago—especially in Germany—examined the human organism and found it a crude contrivance of pipes, tubes, levers and dead weight. This botched mechanism could be kept going only if someone constantly patched and repaired it. Writing of this antiquated medical theory, an historian says: "This held that the body was a faulty machine and Nature a blind worker. The student made an inventory of the body's contents and found, as he expected, some out of place, some wearing out, some clumsy makeshifts . . . some mischievous survivals left over." Medical practice, based on this theory, was to interfere with the body's working by probing, operating, removing and altering. The practice sometimes proved disastrous to the patient!

Medical theory has changed. Modern theory, according to the same historian, regards the body as "a single unit, health a general condition natural to the organism . . . and the best diet and regime, to live naturally." This theory regards the body as a self-regulating, and for the most part, a self-curative organism. It need not be interfered with except to repair or remove any obstruction that prevents the free flow of the healing power of nature. This is an ancient idea, as witness the Latin phrase *vis medicatrix naturae*. Medical or surgical ministrations do not create health; the body does that of itself, if let alone.

The new outlook in medicine is summed up by the title of the famous book by Harvard professor Walter B. Cannon: *The Wisdom of the Body*. I believe it was Dr. Cannon who introduced the concept of "homeostasis," the idea that the human body maintains all the balances necessary to preserve health—unless something interferes. In which case, call the doctor!

Health and Freedom

There is a striking parallel between present day theories of health and the ideal of freedom in human affairs. The believer in freedom is one who has come to realize that society is a delicately articulated thing, each part depending on every other. Hence, arbitrary interference with anyone's peaceable willed action not only diminishes the freedom of the person restrained but affects all other persons in society. The attempt to masterplan society upsets the balance which every part of society naturally has with every other part, because every unit of society is an autonomous, initiating, reasoning, responsible human being.

Nearly everyone favors freedom in the abstract. Most intellectuals champion freedom of speech, academic freedom, freedom of the press, and freedom of worship; they dis-

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trust economic freedom. Those who would deny freedom in the marketplace assume that, in the absence of political controls over production, economic life would be chaotic. The assumption, in other words, is that manufacturers would not produce the goods consumers want unless government stepped in and told them what to make, and in what sizes, styles, and colors. The assumption is absurd; and so is the belief that the free economy rewards some at the expense of others. Everyone in the free economy is rewarded by his peers according to their evaluation of the worth of his goods and/or services to them.

The Problem Is Scarcity

Why is there economics? What is the problem that calls forth this discipline? The problem, in one word, is "scarcity." Virtually everything men and women want, need, or desire is in short supply. On the human side of the economic equation is a creature of insatiable needs and desires. On the other side of this equation is the world of raw materials and energy, which are scarce relative to human demands for them. Unlimited wants on one side of the equation, but only limited means for satisfying them on the other. The equation will never come out right. Human wants always outrun the means for satisfying them. Economics, in the nature of the case, is "an anti-utopian, anti-ideological, disillusioning science," as the late Wilhelm Roepke used to point out.

For a thing to qualify as an economic good, two requirements must be met: the item must be needed or wanted, and secondly, it must be in short supply. Air, despite the fact that it is necessary to our lives, is not an economic good, for it is not in short supply; under normal conditions there is enough air for everyone with lots left over. But conditioned air *is* an economic good, even though it is not necessary for life but only ministers to our comfort. Conditioned air is scarce, there is not as much of it as people want, merely for the taking; so people have to give up something in exchange in order to get it. Aside from fresh air, virtually everything we want or need is an economic good; there is not enough of anything for everyone to have all he wants merely for the taking. Some frustration is therefore inevitable; frustration is built into the human situation and we have to learn to live with it. All that economics can promise is a means for making the best of an awkward situation.

Economics, then, is the discipline which deals with goods in short supply—just about everything we want—and the problem it faces is how to allocate scarce goods so as to best satisfy the most urgent human wants, in the order of their urgency.

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The free market approach to this problem is to rely on the individual free choice of consumers, as manifested in their buying habits. The buying habits of people form a pattern which tells entrepreneurs what to produce, and in what quantities, sizes, and so on. This is the tactic of liberty as applied to the workaday world; this is the market economy, or the price system, and if government merely protects people in their productive activities, and in their buying and selling—protects them by curbing predation and fraud—the economic activities of man are self-starting, and self-regulating.

Market Performance

The free market is the only device available for allocating scarce resources equitably. The market's performance is so efficient and so intelligent that it has excited the admiration of those who have studied and understood its workings. Virtually every one of the charges that has ever been directed against the free economy proves, upon examination, to be aimed at a problem caused by some misguided political interference with the free economy.

No one likes the term Socialized Medicine but there are many people—including some doctors—who support things like Medicare. The professed aim of Medicare is to increase the availability of medical and surgical services by political interventions and subsidies. Now medical and surgical services are in short supply, relative to the demand for them. This is to say that medical and surgical services are economic goods, and—like all economic goods—they are scarce relative to demand. Therefore, a way must be found to ration them.

The free market is the only efficient and fair way to allocate scarce goods, and it follows that only the free market can be relied upon to furnish the greatest quantity of high grade medical and surgical services at the lowest possible price, to a citizenry which has a great variety of other needs and desires to satisfy as well. Every political alternative to the market means a wastage of economic goods and resources; it means less for all. This law applies to medical and surgical services. Socialized Medicine must inevitably lead to a misallocation of available medical resources, with fewer available benefits for those who need them.

The Better Alternative

There are no perfect solutions in human affairs; there are only better or worse alternatives. The private practice of medicine does not promise perfection, any more than the private practice of education, or the private practice of religion, or the private practice of anything you'd care to mention. But private practice surely beats the alternative,

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which is to have the politicians and bureaucrats run the show. In that direction lies disaster!

Nineteenth-century collectivist theories resulted in twentieth-century totalitarian politics, with its record of slaughter, conquest, poverty, fear, terror, regimentation, and the Gulag. Ideas have consequences; the consequence of bad ideas is monstrous evil on a vast scale. But ideas are changing. Former left wing intellectuals are now neo-conservatives. Some even admit to being conservatives—a conservative being defined by Mike Novak as a liberal who has been mugged by reality! I'm not going to assert that we've turned the corner, but we have made progress and the corner is within sight.

Universal Order

This is a *uni*verse we live in, not a *multi*verse or a chaos. Old Mother Nature has a passion for order; she will tolerate disorder up to a point—then watch out! For thousands of years we have known what we *ought* to do in the moral and spiritual dimensions of our lives, but we find it difficult to perform as we should at this level. Man likes to think that he can "get away" with things, and so he ignores or defies that Purpose which manifests itself in and through the universe. The universe tolerates wayward man up to a point, but if man does not learn his lessons from his own waywardness he will be taught the hard way. "Things won't be mismanaged long," said Emerson. Nature will not allow it.

Victor Hugo in his great novel *Les Miserables* put the matter more dramatically. You recall his long description of the Battle of Waterloo and the defeat of the French. And then these words at the end of chapter 53: "Why Napoleon's Waterloo?" Hugo asks. "Was it possible that Napoleon should gain this battle? We answer No. Why? Because of Wellington? Because of Blucher? No; because of God! Bonaparte victor at Waterloo—that was no longer according to the law of the 19th century. Another series of events was preparing wherein Napoleon had no further place. . . Napoleon had been denounced in the infinite and his downfall was resolved. He bothered God. Waterloo is not a battle; it is the universe changing front."

And so I say, Let's not try to save the world! Saving the world is God's job; our job—yours and mine—is to live in the world up to the level of our best insights. That might make the world *worth* saving!

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America by the Throat

In his *America by the Throat: The Stranglehold of Federal Bureaucracy* (Devin-Adair, Publishers, 143 Sound Beach Avenue, Old Greenwich, Conn. 06870, 190 pp., $14.95), President George Roche of Hillsdale College talks about an imaginary state of Rapinia. It is bureaucratically run, with orders going out from a Central Economic Planning Bureau. It happens to have four main frame computers, procured illegally from capitalist countries. The problem is what to feed into the computers that will enable the chief bureaucrats to decide on the disposition of available investment capital and energy.

The economy of Rapinia is out there waiting. The country needs steel I-beams, shoes, wheat, toothpaste, dental drills and hydroelectric dams. But in what order, and in what relative amounts? How shall the workers be apportioned to the various enterprises? Which factories will be entitled to what raw materials? "What," asks Roche, "are two kilos of soap powder worth relative to a hectare of barley relative to a hydroelectric dam? How can one add up or make any calculations concerning an I-beam, wheat, and cosmetics? There is no common denominator for these things."

In a market system they could be priced in terms of the money that individual purchasers would be willing to put out for the separate items. But this presumes free will on the part of individuals, and a private base from which to trade. In assuming that Rapinia is cut off from an international market (just how did the Rapinian bureaucrats ever get hold of those computers anyway?), the problem of economic calculation must become a nightmare. Decisions will be made by sheer guesswork and enforced by a police, a KGB, who are under orders from a planning board which itself is subject to prior decisions made by a political dictator. The dictator, of course, would have to think first of all in terms of his army. So we have missiles always coming before butter!

In describing his Rapinia, with all its troubles, George Roche acknowledges his tremendous debt to Lud-

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wig von Mises, who raised the point about the dependence of economic calculation on a market system some sixty years ago. But Roche's concern in depicting his imaginary Rapinia is not merely to endorse the Mises insight. The idea behind Roche's book is to show how the urge to approach Rapinia as a limit corrupts the thinking of bureaucrats in free market states, making economic calculation more difficult as the empire-building talents of canny top bureaucrats manage to siphon off more and more of the national income.

To Ludwig von Mises George Roche has added Albert Jay Nock, who made key distinctions between political power and social power. The political power is coercive, and it grows all the time. When it begins to take more than 30 per cent of the national income for itself, it has disastrous effects on the incentives of those who still possess some social power. Invention lags. People seek special tax havens and turn to a new lawyer class to find ways of outwitting the bureaucrats.

The bureaucrats that keep growing may be well-intentioned, but rigidity is imposed on them by law. The bureaucrat must go by the book. If he departs from the rule, the letter of the law, he would be subject to investigation and a possible jail sentence.

The regulations imposed by the book are essentially sterile. Businesses grow by bold innovations made by individuals who are willing to take chances. The bureaucrat can't understand the innovative mentality. If the law tells him that a toilet seat must be made a certain way, or that a mouse trap must conform to certain specifications, or that a window must be X number of inches off the floor, he will apply the rule quite arbitrarily. In so doing he may be freezing a design forever.

Examples of Waste

George Roche has a lot of good laughs at the bureaucrats' expense. By law federal bureaucrats poured 76 million barrels of oil into a cave to create a mandated Strategic Petroleum Reserve. But the law had forgotten to specify that pumps must be installed to get the "reserve" out in a time of emergency. Every year, in accordance with regulations, the Department of Defense buys 48,000 heavy duty leather holsters for .45 caliber pistols. But it hasn't gotten any new .45 pistols since 1945.

These things, culled mostly from Bill Buckley's *National Review,* are funny in detail. But they cease to be funny when their cost to the taxpayer is considered.

And it is certainly not funny when bureaucracy strikes at Dr. Roche's own college at Hillsdale in Michigan. Hillsdale has never taken a dime from the federal government in direct government support. But

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some of its students have borrowed education money from government sources on their own. This is their legal right, and Hillsdale has had no power to prevent it. But the bureaucrats, sticking to the letter of the law as interpreted by themselves, decided that any college that accepts a student who has had Federal funding must itself accept Federal rulings on such things as hiring quotas. Hillsdale, according to the bureaucrats, did not employ enough women. The little fact that there are not enough women Ph.D.s to go around meant nothing to the bureaucratic mind.

The rulebook approach insures that mistakes, when made by oversolicitous governments, can in Fiorello LaGuardia's phrase be "beauts." An environmental ruling designed to protect caribou in Alaska delayed the building of the needed trans-Alaska oil pipeline by five years at the very time that the Arabs of OPEC were getting away with their monopolistic price-fixing. Eventually the magazine published by the Smithsonian Institute sent a reporter up to the Alaskan North Slope to check on the caribous' habits. The reporter discovered that the caribou, far from being bothered by the pipeline right-of-way, loved huddling on the new artificially raised land to get away from the mosquitoes.

The business of the bureaucrat, so Roche tells us, is to fund problems, not to solve them. The bureaucrat who wants to keep his job going would only be cutting his own throat if he were to work himself into premature retirement. So we come to Roche's two laws. The first is that the supply of human misery will rise to meet the demand. The second is that the size of the bureaucracy increases in direct proportion to the additional misery it creates.

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THE ECONOMICS AND POLITICS OF RACE: AN INTERNATIONAL PERSPECTIVE

by Thomas Sowell
(William Morrow & Co., Inc., 105 Madison Avenue, New York, NY 10016), 1983
324 pages • $15.95 cloth

Reviewed by Allan C. Brownfeld

DO CERTAIN GROUPS advance in society at varying rates because of the attitude of society toward them? Does discrimination against a given group cause it to do less well economically and educationally than those groups which do not face such external barriers?

Policy makers in the U.S. have answered these questions in the affirmative. They have decided that certain groups of Americans, in particular blacks, are poorer than average because of the prejudice they face and the discrimination with which they have been forced to contend, not only today but historically. The answer to these disparities, it is argued, is not only to eliminate such discrimination, but to make up for the past by instituting programs of "affirmative action."

But what if some have advanced less rapidly than others *not* because of the attitude of the external society, but because of the internal values and constitution of the groups themselves? If this is the case, current polities are irrelevant at best, and possibly counterproductive as well.

In this landmark study, Dr. Thomas Sowell, a Senior Fellow at the Hoover Institution of Stanford University and well known as a leading black economist, uses an international framework to analyze group differences. Examining the experience of given groups in more than a dozen countries, he seeks to determine how much of each group's economic fate has been due to the surrounding society and how much to internal patterns that follow the same group around the world.

The Italians in Australia and Argentina, for example, show social and economic patterns similar in many respects to those of Italians in Italy or in the United States. Chinese college students in Malaysia specialize in very much the same fields that they specialize in in American colleges—a far different set of specializations from those of other groups in both countries. Germans have, similarly, concentrated in very similar industries and occupations in South America, North America, or Australia.

Analyzing the successes of each group, Sowell points to the group's culture, which rewards some behaviors over others, as the determinant of skills, orientations, and therefore economic performance. "Race may have no intrinsic significance," he

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writes, "and yet be associated historically with vast cultural differences that are very consequential for economic performance."

In Southeast Asia, for example, the overseas Chinese have been subjected to widespread discrimination. Quota systems were established in government employment and in admissions to universities in Malaysia, and a "target" of 30 per cent Malaysian ownership in business and industry was established. In Indonesia, a 1959 law forbade the Chinese to engage in retailing in the villages. Chinese-owned rice mills were confiscated. In the Philippines, it was decreed that no new Chinese import business could be established, and Chinese establishments were closed by law.

Despite all of this, Dr. Sowell points out, the Chinese thrived. As of 1972, they owned between 50 and 95 per cent of the capital in Thailand's banking and finance industry, transportation, wholesale and retail trade, restaurants and the import and export business. In Malaysia, the Chinese earned double the income of Malays in 1976, despite a massive government program imposing preferential treatment of Malays in the private economy. In the U.S., as in Southeast Asia, writes Sowell, "the Chinese became hated for their virtues." Despite discrimination, the Chinese advanced rapidly in the U.S., as did the Japanese, who met similar forms of racial bigotry, including special taxes and job restrictions.

In Europe, the author points out, precisely the same story can be told with regard to Jews. Anti-semitism was a powerful force in many countries, yet Jews continued to advance. Although Jews were only one percent of the German population, they became 10 per cent of the doctors and dentists, 17 per cent of the lawyers and won 27 per cent of the Nobel Prizes awarded Germans from 1901 to 1975. In the U.S., Sowell points out, "Although the Jewish immigrants arrived with less money than most other immigrants, their rise to prosperity was unparalleled. Working long hours at low pay, they nevertheless saved money to start their own small businesses . . . or to send a child to college. While the Jews were initially destitute in financial terms, they brought with them not only specific skills but a tradition of success and entrepreneurship which could not be confiscated or eliminated, as the Russian and Polish governments had confiscated their wealth and eliminated most of their opportunities."

In the case of blacks in the U.S., Dr. Sowell notes that West Indians have advanced much more rapidly than native born American blacks because of major cultural differences. In the West Indies, slaves had to grow the bulk of their own food—

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and were able to sell what they did not need from their individual plots of land. They were given economic incentives to exercise initiative, as well as experience in buying, selling and managing their own affairs—experiences denied to slaves in the U.S.

The two black groups—native born Americans and West Indians—suffered the same racial discrimination, but advanced at dramatically different rates. By 1969, black West Indians earned 94 per cent of the average income of Americans in general, while native blacks earned only 62 per cent. Second generation West Indians in the U.S. earned 15 per cent *more* than the average American. More than half of all black owned businesses in New York State were owned by West Indians. The highest ranking blacks in the New York City Police Department in 1970 were all West Indians, as were all the black federal judges in the city.

It is a serious mistake, Sowell believes, to ignore the fact that economic performance differences between whole races and cultures are "quite real and quite large." Attitudes of work habits, he believes, are key ingredients of success or failure. The market rewards certain kinds of behavior, and penalizes other behavior patterns—in a color-blind manner. Blaming discrimination by others for a group's status, he states, ignores the lessons of history.

Political efforts to address the "problems" of minorities usually fail, Sowell reports, because they refuse to deal with the real causes of such difficulties: " . . . political 'solutions' tend to misconceive the basic issues . . . black civil rights leaders . . . often earn annual incomes running into hundreds of thousands of dollars, even if their programs and approaches prove futile for the larger purpose of lifting other blacks out of poverty."

Crucial to a group's ability to advance is the stability of its family life and the willingness to sacrifice: " . . . more than four-fifths of all white children live with both their parents. But among black children, less than half live with both parents . . . What is relevant is the willingness to *pay a price* to achieve goals. Large behavioral differences suggest that the trade-off of competing desires vary enormously among ethnic groups . . . The complex personal and social prerequisites for a prosperous level of output are often simply glided over, and material wealth treated as having been produced *somehow*, with the only real question being how to distribute it justly."

If we seek to understand group differences, it is to "human capital" that we must turn our attention, Dr. Sowell declares. The crucial question is not the fairness of its distribution but, "whether society as a whole—or mankind as a whole—

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gains when the output of both the fortunate and the unfortunate is discouraged by disincentives."

It is possible that many civil rights leaders, academicians and politicians have a vested interest in perpetuating the current myths about the causes of group differences, but the rest of us are under no obligation to view the world through the blinders of such special interest groups. Many are likely to oppose the conclusions of this important book. They will not, however, be able to ignore it.

IDOLS FOR DESTRUCTION: CHRISTIAN FAITH AND ITS CONFRONTATION WITH AMERICAN SOCIETY
by Herbert Schlossberg
(Thomas Nelson Publishers, P.O. Box 141000, Nelson Place at Elm Hill Pike, Nashville, TN 37214), 1983
335 pages ■ $14.95 cloth; $8.95 paperback

Reviewed by Edmund A. Opitz

THE modern world, as Mr. Schlossberg perceives it, is steeped in polytheism. Strange gods comprise its pantheon, bearing odd names such as Historicism, Mammon, Humanism, Nature, Power, and Religion. A chapter is devoted to the left-liberal ideologies which constitute, or have infiltrated, these several fields, and well-known apologists advance their best arguments. But after our author has applied his critical analysis his opponents are left without a case. He is an acute critic who seems to have read everything the idol makers have written, and much else besides. With its full index, the book is an encyclopedic survey of contemporary ideologies. It is also an answer, point by point, to much entrenched error. As an iconoclast, Schlossberg is a smashing success as he coolly demolishes one idol after another.

But the net impact of the book is not negative, for the author has a positive philosophy of freedom to replace the dubious notions he criticizes. Schlossberg is equipped with a body of principles explicitly Christian, buttressed by ideas from the writings of men like Mises, Hayek and Friedman. It is my opinion that many readers of *The Freeman* will be stimulated and challenged by this work, and I urge it upon them.

DOUBLE CROSSING
by Erika Holzer
(G. P. Putnam's Sons, 200 Madison Ave., New York, NY 10016), 1983
291 pages ■ $13.95 cloth

Reviewed by Bettina Bien Greaves

This is a novel about two brothers, Aleksei and Kiril Andreyev. Born in the Soviet Union and raised in Moscow, their lives took two very differ-

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ent turns. Through flashbacks we learn that their father had been a drunkard and a member of the dreaded Soviet police. Their mother, however, had been unable to share her husband's views and, when a third son was seriously injured in infancy, had fled with him to the West in a desperate search for medical attention.

Aleksei, just under ten when his mother disappeared, had already learned that his father's name inspired fear in the hearts of listeners. He soon became a young bully and in time, following in his father's footsteps, a powerful official in the Soviet intelligence agency.

Kiril, only three when his mother left, was raised by an aunt who sympathized when he rebelled against the Communist youth organization, encouraged his natural desire for freedom and taught him how to oppose the regime in silence. Thus, Kiril quietly nursed his resentment against the Communist regime and spent every effort toward preparing himself for eventual escape from the Soviet Union. He studied languages and chose a medical career in the hope that it might some day take him abroad.

Kiril's first carefully worked out scheme to escape failed when his coconspirator was killed in a desperate dash for freedom across the bridge between East and West Berlin. But Kiril persisted. Aleksei, suspicious of his brother's intentions, had long been having him closely followed by secret informants.

The tale climaxes when fate finally brings Kiril, his brother Aleksei, as well as all the other major characters in the book, to a medical meeting in East Berlin. There, fortuitously, Kiril meets a famous American doctor who looks astonishingly like him. Kiril tries to persuade the doctor to let him "borrow" his U.S. passport just long enough to permit him to cross the border into West Berlin. Unfortunately, this scheme goes awry for completely unexpected reasons. Kiril then improvises on the spot—to tell how, would give the plot away. Suffice it to say that the story is exciting and the ending satisfying.

This book tells a great deal about the sad plight of persons behind the Iron Curtain who are yearning to be free. It reveals to some extent their desperation and the faint hopes to which they cling on the slight chance of someday escaping the clutches of the Communist regime.

To promote the freedom philosophy, it is important to make use of any and every medium of communication. Too few novels nowadays are sympathetic to capitalism. Thus, it is refreshing to have a well-written thriller that is frankly pro-freedom and anti-communist. Our thanks to Erika Holzer for *Double Crossing*.

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Social Responsibility—
A Page on Freedom, No. 5 ..... Brian Summers 195

What Killed Ma Bell? ..... Melvin D. Barger 196

The Public Be
Damned .... Again! ..... Thomas Schaefer and
Sid Streicher 205

Unionism Revisited ..... Clarence B. Carson 209

Does Welfare Diminish Poverty? Howard Baetjer Jr. 219

Women, Work and Wages ..... Hans F. Sennholz 225

To Save the World ..... Edmund A. Opitz 239

BOOKS:

America by the Throat ..... John Chamberlain 249

Other Books 252

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